

Saskatchewan Rate Review Panel

Report to the Minister of Crown Management Board

Concerning the

SaskPower Rate Proposal

August 2004

December 17, 2004

Rate Review Panel

December 17, 2004

Honourable Pat Atkinson
Minister of Crown Management Board
Government of Saskatchewan
Room 322, Legislative Building
Regina, Saskatchewan.
S4S 0B3

Dear Minister Atkinson,

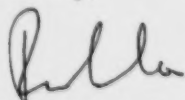
As instructed in your Minister's Order of July 29, 2004 (and amended on November 23, 2004, to grant an extension for filing our report), the Saskatchewan Rate Review Panel has completed its review of SaskPower's August 2004 rate proposal. This proposal involves changes to the electrical rates charged to its customers. Attached for your consideration are the Panel's report and recommendations with respect to this proposal.

In conducting the review, the Panel received advice from a variety of interested parties and the general public. This advice was received through public meetings and through submissions received by regular and electronic mail, facsimile, and telephone. The Panel also engaged the services of a consultant to provide expert advice.

The Panel received excellent co-operation from officials of SaskPower and wishes to express its appreciation for their assistance in providing clarification, explanation, and additional information to meet the Panel's needs.

The Panel believes that its recommendations with respect to this rate proposal are fair and reasonable within the mandate established by the Minister's Order.

Yours truly,



Boris Kishchuk, P. Eng.
Chair

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Executive Summary

SaskPower's Proposal

SaskPower has proposed weighted average rate increases for electrical consumption of 9.0% and 1.8%, effective on September 1, 2004 and September 1, 2005, respectively. The proposal is anticipated to generate \$33.9 million in additional revenue in 2004 and \$110.7 million in 2005.

Role of the Saskatchewan Rate Review Panel

By a Ministerial Order, dated July 29, 2004, the Minister of Crown Management Board directed the Saskatchewan Rate Review Panel to evaluate SaskPower's proposal with respect to whether the rate changes are fair and reasonable and how they balance the interests of the customer, the Crown corporation, and the public. The Panel's conclusions and recommendations are provided to the provincial government for its consideration. The final decision on the proposal rests with the government, through its Cabinet.

In performing its review, the Panel retained the services of a technical consultant (Dillon Consulting Limited, in association with L.A.B. Consulting Ltd.) who has experience in providing professional engineering services to provincial utilities, rate review agencies, wholesale energy providers, and private industry. We also undertook a public consultation process, including three public meetings and the receipt of numerous submissions and comments through the mail, by telephone, facsimile, and electronic messaging.

The Panel's Conclusions and Recommendations

Conclusions and Recommendations on SaskPower's Revenue Requirements

- *SaskPower's proposal for a September 1, 2004, weighted average rate increase of 9% is too high. This conclusion is based on two factors:*
 - a) *rate shock identified by many SaskPower customers; and*
 - b) *higher than anticipated net income for 2004 as identified through recent forecasts of the utility's revenues, expenditures, and net income.*
- *SaskPower's proposed weighted average rate increase, effective on September 1, 2004, should be reduced by at least three percentage points (i.e. 6% increase rather than 9%).*
- *In light of the volatility of fuel and purchased power costs, net of export revenues, the Panel has concluded that SaskPower should be directed to undertake further analysis of the utility's revenues, costs, and net income to*

determine the reasonableness of its rate proposal for 2005. In other words,

- the Panel is not prepared to recommend approval, at this time, of SaskPower's proposal for a weighted average rate increase of 1.8% effective on September 1, 2005. The Panel recommends that SaskPower should be directed to submit a separate and updated application for a further rate increase in 2005, if warranted.

Conclusions and Recommendation on the Cost of Service Allocation Studies

- To the extent that the cost of service methodology is a "given", the Panel is unable to express an opinion on the fairness and reasonableness of the rate rebalancing and redesign elements of the 2004 SaskPower rate proposal. It has taken this position because:
 - a) an evaluation of the cost of service methodology is beyond the Panel's mandate (i.e. it is to be treated as a given),
 - b) within its rate application document, SaskPower has not provide sufficient explanation and rationale for the implications of its rebalancing and redesign decisions;
 - c) insufficient time and information has been provided to conduct an audit of the application of the cost of service methodology; and
 - d) the Panel is concerned about compromising its principle of holding open and transparent reviews, if it is required to undertake its evaluation with confidential information.
- That the Minister reconsider designating the cost of service methodology as a given within the rate review process and that a Minister's Order be issued for a separate review of the methodology (design and implementation), prior to the consideration of SaskPower's next rate application.

Conclusions and Recommendations on Rate Rebalancing and Redesign:

- As noted in the previous section, the Panel is unable to support the rate increases that SaskPower has proposed for various customer classes. At the same time, it has determined that the application of a 6% across-the-board increase will perpetuate or exaggerate existing inequities between the cost of service and the revenue recovery with certain customer classes. Therefore, the Panel recommends the following class rate increases, for a weighted average of 6%:

Urban residential	6.0%
Rural residential	8.0%
Farm	5.5%

<i>Urban commercial</i>	<i>5.5%</i>
<i>Rural commercial</i>	<i>6.0%</i>
<i>Power rates</i>	<i>8.0%</i>
<i>Power contract</i>	<i>5.5%</i>
<i>Oilfields</i>	<i>5.5%</i>
<i>Street lights</i>	<i>Nil</i>
<i>Reseller</i>	<i>8.0%</i>

- *The Panel recommends that the above-noted rate increases by customer class should be introduced as an interim measure. They should be effective on September 1, 2004, and should continue as an interim measure until there has been a thorough review of the cost of service methodology and its impact on the various customer classes.*
- *To limit the impact of the interim rate rebalancing and redesign, the Panel recommends that the rate increases should be capped so that no individual customer incurs an increase of more than 17%, with special provisions to cap the increase on manufacturers at 7%, as of September 1, 2004. These caps are inclusive of basic monthly, energy, and demand charges.*

Introduction

Background

By Minister's Order, dated July 24, 2002, the Minister of Crown Management Board (the "Minister") established a ministerial advisory committee, known as the Saskatchewan Rate Review Panel (the "Panel"). The Panel's existence was reaffirmed by Minister's Order, dated May 26, 2004. In the latter order, the Panel's role was outlined as follows:

1. *"[to] conduct a review and provide an opinion of the fairness and reasonableness of proposed Crown corporation rate changes, referred to the Panel by the Minister of Crown Management Board, concerning the interests of the customer, Crown corporation, and the public utility; and*
2. *[to] incorporate as part of its mandate specific terms of reference for particular Crown Corporation rate change reviews that may be attached by further minister's order."*

The mandate of the Panel extends to three Crown corporations in Saskatchewan – SaskEnergy, SaskPower, and SGI AutoFund.

The function of the Panel is to serve as an advisory body to the Minister of Crown Management Board. It provides separate and independent advice on rate proposals from the above-noted corporations. The final decision on these proposals continues to rest with the provincial government, through its Cabinet.

Members of the Panel

By Minister's Order, dated July 27, 2004, the following members have been appointed to serve on the Saskatchewan Rate Review Panel:

Chair	Boris Kishchuk (Saskatoon)
Vice-Chair	Jack Boan (Regina)
Members	Jo-Ann Carignan-Vallee (Assiniboia)
	Bernadette Garrett (Landis)
	Joan Meyer (Swift Current)
	Ken Pontikes (Saskatoon)
	Pamela Smith (Regina)
	Linda Thauberger (Regina)

The term of appointment for all members will expire on July 25, 2005.

Panel's Terms of Reference

On July 29, 2004, the minister issued an order that established the Panel's terms of reference to review SaskPower's August 2004 rate proposal. (See Appendix A.) This order called for the Panel to complete its work by December 3, 2004.

In a letter dated November 17, 2004, the Panel advised the minister that it needed more time to complete its review of the relatively large number of submissions and questions raised by customers and the general public concerning SaskPower's rate application. Therefore, the

Minister agreed, through a Minister's Order, dated November 23, 2004, to extend our reporting date to December 17, 2004. (See. Appendix B.)

SaskPower's August 2004 Rate Proposal

SaskPower's Request

The Panel received SaskPower's rate application (the "application") on August 12, 2004, in the form of a document titled "SaskPower Rate Proposal, August 2004". The following sections describe the elements of the proposal as outlined in that document:

- Rate adjustments to occur on September 1, 2004 and September 1, 2005.
- Additional revenue to be generated by these adjustments: \$33.9 million in 2004 and \$110.7 million in 2005.
- Complete the four-year rate rebalancing program that was commenced on April 1, 2001.
- Provide for all customer classes to be within the target revenue to revenue requirement (R/RR) ratio range of 0.95 to 1.05 in 2004.
- Apply differential rate changes by customer class, with the following weighted-average implications (i.e. actual implications for individual customers will vary depending on consumption and modifications to basic, energy, and demand charge components):

Customer Class	Revenue Increase	
	September 1, 2004	September 1, 2005
Urban Residential Customers	8.7%	1.7%
Rural Residential Customers	13.0%	2.0%
Farm Customers	7.0%	1.0%
Urban Commercial Customers	8.0%	2.0%
Rural Commercial Customers	10.0%	2.0%
Power Rate Customers	13.2%	3.3%
Power Contract Rate Customers	7.5%	1.7%
Oilfield Customers	10.0%	2.0%
Streetlight Customers	0.0%	1.0%
Reseller Customers	14.0%	2.0%
System Weighted Average Increase	9.0%	1.8%

- Continue the rate redesign process, but ensure that no individual customer experiences a rate increase of more than 25% in 2004 and 10% in 2005.
- Limit the rate increase for manufacturing customers to 11% in 2004 and 3.9% in 2005.

Prior to receiving the Panel's recommendations on this proposal, the provincial Cabinet approved an interim rate increase of 9% on SaskPower customers, effective on September 1, 2004.

SaskPower's Rationale for the Request

SaskPower identified the following "benefits" to justify its request for higher rates, rate rebalancing, and rate redesign:

- *"SaskPower would continue its program of repair and modernization of the Saskatchewan electrical system to maintain system reliability;*
- *SaskPower would add new, small-scale and environmentally responsible generating capacity to meet increased customer demand;*
- *SaskPower customers would be charged rates that more closely reflect the cost of service;*
- *SaskPower would continue to pay dividends at a reasonable rate of return on shareholders' equity;*
- *SaskPower would achieve its consolidated return on equity target in 2005."*¹

Subsequently, in a bill stuffer that was sent out to its customers, SaskPower narrowed down the basis for its rate proposal to "two simple, but major reasons" – power generation costs (i.e. fuel and purchased power costs) and aging infrastructure.²

¹ SaskPower, Fact Sheet, 2004 Rate Application, Media, August 3, 2004.

² SaskPower, Important Information about our Electrical Rate Application.

Previous Years' SaskPower Rate Changes

During the period from 1994 to 2003, inclusive, SaskPower's system-wide electrical rates have increased, on a compounded basis, by 12.0%. The following table indicates how these rate increases have been applied by class of customer:

SaskPower, Electrical Rate Increases, 1994 - 2003

Customer Class	Compounded Percent Rate of Change
Residential	+ 31.4
Farm	+ 32.2
Street Lighting	- 4.7
General Service:	
• Small Commercial (Up to 75 kV.A)	+ 16.1
• Manufacturing & Food Processing	+ 29.1
• Standard (75 - 2000 kV.A)	+ 7.2
Power Rates:	
• Standard	+ 8.0
• Manufacturing and Food Processing	+ 21.0
Oilfields	- 5.4
System-wide Average	+ 12.0

Notes:

- i) The compounded rate of change includes the implications of incorporating the former reconstruction charge into the basic charge.
- ii) During this period, SaskPower altered the categories of customer classes. Therefore, some of the classes within the 2004 rate proposal (e.g. urban and rural residential, power contract, resellers) have not been explicitly identified in this table.

Source: SaskPower, *SaskPower Rate Proposal, August 2004*, Appendix B, p. 33.

The Saskatchewan Rate Review Panel considered two proposals for electrical rate changes during this period. The Panel's recommendations affected SaskPower's electrical rates in 2001 and 2002.

The First 2001 Rate Proposal

SaskPower's request

SaskPower proposed an average rate increase, which was equivalent to 3.25% of its revenue from the sales of electricity in Saskatchewan, with no increases for some customer classes and increases as high as 10% for other customer classes. The Corporation requested that the increase be effective on January 1, 2001.

The Panel's recommendation to the Minister

The Panel made the following recommendations and comments to the Minister:

- That SaskPower's rate increase be limited to no more than 2%, averaged across the revenue base and that the increase be effective only on services provided beginning on April 1, 2001.

The Panel noted that there may be opportunities within the Corporation to constrain or reduce operating and maintenance costs and therefore, achieve savings relative to the costs projected by SaskPower in its application.

- That there be no increase in electrical rates for any customer classes for which the revenue to revenue requirement ratio (R/RR) exceeds 1.0 in 2000, except if such a rate freeze would reduce the rates to less than the forecasted costs of supplying electricity.

The Panel noted that, by in large, SaskPower was not proposing to increase the rates charged to customers for which the R/RR ratio is greater than 1.0, with the exception of the rural general service, small urban commercial, and non-contracted power customers. The Panel viewed these exceptions as unjustified.

- That the average increase for any customer class should be limited to a maximum of 6.0%.

The Panel was of the view that large increases in rates could be very destabilizing to customers.

- That there should be no increases in rates that would result in the R/RR for any class of customer changing from less than 1.0 to more than 1.0.

The Panel was of the view that after the rate increase, no customer class should have a R/RR ratio that exceeds 1.0.

- That within the restrictions recommended above, increases should be further restricted such that no customer should have a rate increase in excess of 10%.

The Panel concluded that large increases in rates could be very destabilizing to customers.

The Government's decision

The government accepted the Panel's recommendations.

The Second 2001 Rate Proposal

SaskPower's request

SaskPower requested rate increases that were equivalent to a 6.8% increase in revenue, excluding customers who were under long-term contract. The increases were to be effective on December 1, 2001.

The Panel's recommendation to the Minister

- That SaskPower introduce rate changes that would generate a 4.54% increase in revenue, which would generate \$47 million in increased revenue for 2002. The effective date for the rate increases was proposed for January 1, 2002.

The Panel noted that SaskPower was facing increased costs in electrical generation. However, it accepted its consultant's analysis that a number of SaskPower's assumptions were subject to challenge and debate. These assumptions included the load growth forecast; natural gas prices; hydro power availability; import power; and operational, maintenance, and administrative expenses. Amendments to these assumptions would provide SaskPower with a reasonable opportunity to achieve its stated return on investment target of 10%.

- That the maximum increase for an individual customer be capped at 13%, including the basic monthly, energy, and demand charges.

SaskPower's request could have seen individual customers subjected to an increase exceeding 22%. A rate increase of this magnitude could be considered to create rate shock and could have an extremely negative impact on retaining and advancing Saskatchewan's economic growth. Therefore, the Panel thought that a cap on maximum increases was warranted.

- That a detailed cost of service study be completed prior to SaskPower's next rate application.

The Panel believed that a full cost-of-service review would determine if SaskPower's rate rebalancing allocation was on target or if cost shifts are required to reach parity within customer classes. The Panel argued that a detailed cost of service study would be beneficial to all parties.

The Government's decision

The government accepted the Panel's recommendations.

The Panel's Review Process for the August 2004 SaskPower Rate Proposal

The Scope of the Review

The Minister's July 29, 2004, Order directs the Panel to "conduct a review of SaskPower's request for an increase in rates effective September 1, 2004 and September 1, 2005". The Panel's recommendations are focused on evaluating "the fairness and reasonableness of SaskPower's proposed rate changes, considering the interest of the customer, the Crown corporation and the public."

The Panel has established an internal policy that identifies criteria upon which it will assess the fairness and reasonableness of proposed utility rate changes. In conducting its review, we examine and evaluate the proposals from the perspective of how they:

- Promote reliability of service;
- Provide a fair return to the utility, reflecting current economic conditions, coupled with the lowest possible rate to the consumer;
- Move to diminish rate discrimination;
- Are subject to review through an open and transparent process;
- Involve incentives to improve efficiency; and
- Reflect prudent management of the Crown corporation.

The Minister's July 29, 2004, Order also directs the Panel to include, within its review of the fairness and reasonableness of SaskPower's proposed rates, consideration of the following specific factors:

A. *"The reasonableness of the proposed changes to the rates in the context of SaskPower's forecasted delivery cost of service, comprised of SaskPower's:*

- i) *anticipated costs for fuel (natural gas and coal);*
- ii) *anticipated hydroelectric availability;*
- iii) *load forecasts;*
- iv) *planned maintenance program;*
- v) *operating, administrative and maintenance expenses;*
- vi) *depreciation and finance expenses; and*
- vii) *Corporate Capital Tax.*

B. *The revenue requirement resulting from the delivery cost of service."*

In the same Order, the Panel was also directed to consider the following "parameters as given":

- a) *"the current rate structure, i.e. components and classifications;*
- b) *the budgeted capital allocation, the rate base and established corporate policies;*
- c) *the Return on Equity target of 10%;*
- d) *the non-capital spending levels as defined in 'A' above [i.e. pertaining to the delivery cost of service];*
- e) *the existing service levels;*
- f) *any existing supply contract;*
- g) *the revenue to revenue requirement ratio target of 0.95 to 1.05;*
- h) *the cost of service methodology which allocates SaskPower's costs between the various rate classes;*
- i) *the relationship of SaskPower's rates vis-à-vis other jurisdictions; and*

- j) *the exclusion from the rate proposal of all costs and revenues of SaskPower subsidiaries, thereby including only those costs directly involved in providing utility services to Saskatchewan ratepayers.*"

The Panel has interpreted the Minister's instructions concerning the "givens" to mean that the parameters listed above are not subject to variation. However, we feel the Order does not constrain the Panel from providing comments about the implications of these parameters on SaskPower's proposal and on our recommendations. Our comments pertain to those parameters that we believe have significant consequences for the rate structure.

Responsibilities of the Panel

The Panel has been directed by the Minister, through the May 26, 2004 Minister's Order, to include the following activities in conducting its review of Crown corporations' rate proposals:

- a) *"receive a rate change submission from a Crown corporation;*
- b) *adhere to and operate within the operational and specific terms of reference assigned for each particular Crown corporation rate review;*
- c) *establish internal operating policies and procedures, including review assessment criteria and operating definitions, to facilitate efficient and effective decision-making by the Panel itself;*
- d) *establish procedures for conducting a review including any expedited process(es) and ensure these procedures are communicated and made available to the Crown(s) and the public;*
- e) *establish, whenever necessary, subcommittees of the Panel to consider concurrent rate applications. The minimum number of members on said subcommittees shall be not less than three and shall include the Chair and Vice-Chair;*
- f) *engage the services of appropriately qualified technical consultant(s) sufficiently knowledgeable of the Saskatchewan operating environment to assist the Panel in its review of the fair and reasonable nature of the proposed rate change to determine whether the rate proposals are justified and consistent with the Crown corporation's declared methodologies and within the range of industry practices and principles;*
- g) *make available to the public, prior to holding any public meeting(s), the Crown corporation rate change submission with the exception of commercially sensitive information;*
- h) *undertake a public consultation process for each rate application appropriate and cost effective under the circumstances;*
- i) *provide sufficient notification to the public of the date and location of any and all public meetings, including rules for public participation and Crown corporation participation;*
- j) *provide members of the public with the opportunity to review and comment on the proposed rate changes to the extent reasonable as allowed by the mandate of the Panel and within the schedule assigned by the Minister of Crown Management Board to the Panel to provide its recommendations and report;*
- k) *receive presentations of the consultant(s) and Crown corporation, review any written submissions and receive comments from the public;*
- l) *provide the Crown corporation with the opportunity to review the technical consultant(s)' preliminary report prior to its finalization to ensure there is no error in data or in the interpretation of data and to ensure there are no misunderstandings amongst the parties;*
- m) *prepare a report on the Crown corporation rate change submission for the Minister of Crown Management Board after considering all material received from the Crown corporation, the consultant(s), the public and its own analysis;*
- n) *include in its report:*
 - i) *where the Panel deviates in any significant manner from its technical consultant(s) assessment of the proposed rate changes, the Panel's full rationale for said deviation; and*
 - ii) *where the Panel determines the rate changes proposed are fair and reasonable, recommend the changes be implemented; or*
 - iii) *where the Panel determines the rate changes are not fair and reasonable as proposed, recommend how the rate changes should be adjusted and provide full and comprehensive reasons for this conclusion;*

- iv) *provide its report respecting the proposed rate changes to the Minister of Crown Management Board on or before the date set out in the specific terms of reference for the particular Crown corporation review; and*
- v) *make its report available to the public."*

With respect to item (e) above concerning the establishment of subcommittees, all members of the Panel were involved in reviewing the August 2004 SaskPower rate proposal.

Technical Consultant

Dillon Consulting Limited, in association with L.A.B. Consulting Ltd., was retained to assist the Panel in conducting its review of this rate proposal. With offices across Canada, Dillon Consulting Limited has experience in providing professional engineering services to provincial utilities, rate review agencies, wholesale energy providers, and private industry. Its consulting services include conducting reviews and providing advice on utility rate applications, cost of service studies, utility revenue requirement analysis, rate design proposals, and overall utility operational analysis.

As part of its review of SaskPower's rate application, the consultant forwarded several requests to the Crown corporation for additional information. On several occasions, the consultant also met, in person and by telephone conference calls, with SaskPower officials. As required under the Panel's terms of reference, the consultant forwarded an early draft copy of its report to SaskPower and then met with the Corporation's officials to discuss the report. The purpose of this discussion was to address any errors of fact identified by SaskPower.

The consultant's final report, dated December 9, 2004,³ has been attached to this report as Appendix C. While the Panel has used this document as background and to support many of its conclusions, the responsibility for the accuracy, conclusions, and recommendations in the document remain with the consultant.

Confidentiality

The July 29, 2004, Minister's Order provides the Panel with instructions about the release of certain information which will be provided on a confidential basis:

"The Panel will not publicly release or require SaskPower to publicly release commercially sensitive material and/or information including, but not limited to, its fuel purchasing strategies (including hedging activities) and contracts with specific customers.

The Panel will release as part of its final report the results of the review of SaskPower's rate application as conducted by an independent third party. By doing so, the Panel shall ensure there has been no indirect release of any [of] SaskPower's commercially sensitive material and/or information."

As will be discussed later in this report, the Minister's confidentiality requirements present certain practical difficulties for the Panel in meeting its responsibilities in presenting and justifying its recommendations in a public forum. We carry out our responsibilities through an open and transparent process. This includes ensuring that all parties have access to the same information as we do and that everyone has an opportunity to provide comments and reaction to

³ Dillon Consulting Limited, Saskatchewan Rate Review Panel – Independent Review of the SaskPower Rate Proposal of August 2004, Final Report (December 9, 2004).

the Panel on the entire body of information. This approach helps the Panel to provide the Minister with the best-informed advice, particularly when it is charged with taking into account the interests of the customer, the Crown corporation, and the general public.

In other jurisdictions, the applicant is required to explain and justify to the regulatory body why certain information should be kept confidential. The regulator then decides on the merits of the explanation whether the information should be treated as confidential, with the emphasis being on keeping the process as open as possible. In Saskatchewan, on the other hand, commercially sensitive information constitutes whatever the applicant deems it to be.

SaskPower officials were provided with an opportunity to review a draft of our technical consultant's report. Based on their review of that draft, the officials advised us on December 2, 2004 that the report could be released publicly because it did not contain any information that violated the Corporation's confidentiality requirements.

Public Consultation

In reviewing SaskPower's proposal, the Panel invited and received comments and suggestions from individuals and groups throughout Saskatchewan. The public consultation process included:

- three public meetings;
- use of a toll-free telephone message line;
- receipt of submissions by mail;
- receipt of messages by facsimile; and,
- receipt of electronic message correspondence

These methods of public discussion or comment were advertised in daily and weekly newspapers.

Copies of the SaskPower rate proposal were available to the public at SaskPower offices, at the public meetings and on the Internet. SaskPower also included a brochure ("Important Information about our Electrical Application") with its monthly bills to customers that provided information about its rate application and about how to contact the Saskatchewan Rate Review Panel.

Public Meetings were held on September 29, 2004 (Saskatoon), October 20, 2004 (Regina), and October 21, 2004 (Saskatoon). These meetings included:

- an introduction by the Panel's Chair, with an explanation of the purpose of the meeting and the Panel's mandate for the review;
- an overview by SaskPower of its rate request;
- an opportunity for presentations by individuals or organizations that had indicated an interest in addressing the Panel; and
- an opportunity for questions and comments from the floor.

During these public meetings, the Panel received verbal presentations on behalf of the following organizations:

- City of Saskatoon
- City of Swift Current
- Cogema Resources/Cameco
- Consumer's Association of Canada, Saskatoon Branch
- North Saskatoon Business Association
- Saskatchewan Industrial Gas and Power Users Association (SIGPUA)
- Saskatoon and District Chamber of Commerce
- Weyerhaeuser Saskatchewan

Also, three individuals made verbal presentations to the Panel. Due to privacy considerations, these individuals and others who communicated with the Panel by e-mail, letter, telephone, and facsimile have not been specifically identified in this report.

A court reporter transcribed the proceedings at each meeting. Transcripts of the proceedings are available from the Panel, on request.

Various news media outlets broadcasted reports before and after the consultation meetings. These reports included interviews with the Panel's chair, major customers, and presenters.

Other Submissions

Numerous organizations provided written submissions to the Panel. These included:

- Penn West Petroleum
- Town of Creighton
- Saskatchewan Urban Municipalities Association (SUMA)
- Council of Saskatchewan Forest Industries Inc.
- Heartland Health Region
- Enbridge Pipelines Inc.
- Agricultural Producers' Association of Saskatchewan (APAS)
- Rural Municipality of Garden River, No. 490
- Canadian Association of Petroleum Producers
- Regina and District Chamber of Commerce
- SPI (Saskatchewan Pork Industry) Marketing Group Inc.
- Canadian Federation of Independent Business, Saskatchewan Branch
- Saskferco

The Panel also received a number of submissions and comments from individuals through e-mail, telephone, letter, or fax. When combined with the written letters and presentations from organizations, the Panel received 242 communications from groups and individuals concerning SaskPower's rate application. These communications are summarized as follows:

**Communications Received by the Panel from
Individuals and Organizations Concerning
SaskPower's 2004 Rate Application**

E-mails from individuals	49
Letters from individuals	22
Letters and presentations on behalf of organizations	22
1-800 telephone calls	149
Total number of communications with the Panel	242

We would like to express our appreciation to the people and organizations who took the time to communicate with the Panel.

Summary of Comments and Information Provided to the Panel by Individuals and Organizations Concerning SaskPower's 2004 Rate Application

Overview

The following table provides a summary of the comments provided to the Panel in written submissions from individuals and organizations. These include formal presentations, e-mails, and letters, including facsimiles:

Overview of Communications to the Saskatchewan Rate Review Panel from Individuals and Organizations Concerning SaskPower's 2004 Rate Application

	E-MAILS (49)		LETTERS (22)		ORG'S (22)	
	n	%	n	%	n	%
General Acceptance or Support	2	4%	2	9%	2	10%
General Opposition or Rejection	47	96%	20	91%	19	90%
<i>Reasons for opposition ♦</i>						
Personal income or effects on financial status						
general, or unspecified in the following	9	19%	2	10%	1	5%
fixed income	6	13%	3	15%		
farm income	4	9%	4	20%	1	5%
business income	2	4%	1	5%	12	63%
<i>Sub-total</i>	21	45%	10	50%	14	74%
Timing of application						
time of year given	1	2%	0		3	16%
short notice/ 'already implemented'	7	15%	0		7	37%
SaskPower's financial status						
2003 profit/ dividend pay-out	16	34%	6	30%	6	32%
sponsorships & charitable	3	6%	2	10%		
generally wasteful practices	6	13%	5	25%		
infrastructure maintenance	8	17%	5	25%		
Other reasons						
Poor planning by Sask Power	5	11%	2	10%	3	16%
Governmental/political interference in Sask Power	10	21%	6	30%	7	37%
Effect on services &/or community, Sask population decline	9	19%	9	35%	5	26%
All others ♦♦	22	47%	7	40%	18	90%
Saskatchewan Rate Review Panel						
Critical of Panel: useless, 'captives', biased; spineless, irrelevant	11	23%	2	10%	4	20%

- Notes ♦ Will not total 100%, as writers could give more than one reason.
 ♦♦ Includes various specific points: methods of generating power; other Saskatchewan Power financial, accounting or related practices; concerns (both in favour and opposed) about rates for Saskatoon and, less often, Swift Current; specific effects on business; proposals for privatization or alternate suppliers; and others.

Source: Saskatchewan Rate Review Panel

Written Communication from Individuals

Very few individuals (e-mails: 4%; letters: 9%) supported the proposed SaskPower rate increases – either without reservations (e.g. “we are getting a bargain”) or proposing a modestly lower rate. Rather, almost all e-mail (96%) or letter (91%) writers opposed the increases.

Opposition to the rate proposal was most significantly focused on two reasons:

- The negative effects on household, farm, or business income (e-mails: 45%; letters: 50%); and
- The actual or anticipated negative effects on community services and/or reductions in local communities’ or Saskatchewan’s population (e-mails: 19%; letters: 35%).

Two other themes, which were frequently cited in the written communications from individuals, were:

- SaskPower’s profits earned and/or paid out as dividends in 2003 to the Crown Investments Corporation (e-mails: 34%; letters: 30%), with many writers holding the view that, had these earnings been retained, there would be little or no need for a rate increase. Some also regarded the dividends as a form of indirect or disguised taxation.
- Concerns about governmental interference in SaskPower’s financial status (e-mails: 21%; letters: 30%), often tied to reservations about the genuineness of its need for infrastructure maintenance and/or renewal (e-mails 17%; letters 25%) either due to the dividend pay-out, or because of a previous billing practice in which a specific item was charged for that purpose.

Finally, several writers (e-mails: 23%; letters: 10%) either questioned, or flatly rejected, the usefulness of the Saskatchewan Rate Review Panel, itself. Citing the interim rate increase effective on September 2004, these writers doubted – often with considerable vigour – that the Panel would do anything other than ‘rubber-stamp’ the proposed rate increases for 2004 and 2005.

Written Communication from Organizations

Organizations were just as likely (90%), as were individuals, to be critical of the proposed rate increases. Even those expressing support (2%) wrote only to encourage SaskPower to continue rate rebalancing, so that all customers were at least paying within the 0.95 to 1.05 revenue to revenue requirement (R/RR) ratio range or on some other type of “more equitable” arrangements.

At the same time, the few writing on behalf of rural organizations rejected this approach. They specifically argued that rural communities, households, farm families and/or specific community services – such as recreational facilities – should be exempt from a rate increase, or that rate rebalancing should cease.

Organizations shared some of the major concerns expressed by individuals:

- Many (74%) expressed concerns about the effects of the proposed increases on incomes, specifically for business (63%).
- Organizations, like individuals, also raised concerns about the 2003 dividend pay-out (32%) and/or government interference (37%), as well as the effect on communities' or Saskatchewan's population (26%).

Organizations differed from individuals in a few ways, of which these are the main examples:

- Many more were critical of either the time of year (20%) and/or the short notice (37%) associated with the announcement of the increases.
- Many (90%) had very specific concerns about other issues associated with the proposal, including rates for particular classes, the methodology used to develop them, SaskPower's financial arrangements and consultation processes, and the continued competitiveness of Saskatchewan's economy or business climate.
- Relatively few commented on the utility's power generation methods or mix, and none wrote anything about infrastructure maintenance (at least in the same ways as individuals), sponsorships, or generally wasteful practices.

Finally, roughly as many organizations (16%) as individuals (e-mails: 23%; letters: 10%) were critical of the Saskatchewan Rate Review Panel. While a few organizations were as doubtful as individuals about its usefulness, most organizations were more concerned about restrictions placed on the Panel's mandate or about processes pertaining to transparency and/or full disclosure.

Telephone Calls

Several callers simply sought information about the Panel's meetings, schedule, and related issues. Many, however, offered comments about the proposed rate increases, covering several main themes:

- Inability to pay for any increases due to fixed income (source: individuals); poor farming conditions (source: farmers); or small business circumstances (source: small business owners);
- "Instead of paying government dividends, SaskPower should have used the money for upgrading" (source: general);
- SaskPower should not be spending money on sponsorships (source: general);
- "Inefficient operations by SaskPower field staff" (source: general);
- "Poor planning by SaskPower management" (source: general);

The Panel's Analysis, Observations, and Recommendations Concerning the August 2004 Rate Application

SaskPower's Revenue Requirements

Issues

Financial Forecasts

SaskPower's rate application documentation contains financial forecasts made on February 2, 2004 and May 31, 2004. Including the rate increases proposed in the application, the February forecast anticipated a 2004 net income for the Corporation of \$114 million. The May forecast reduces the 2004 net income to \$48 million.

The references to both forecasts in the rate application raise questions about which one was used to develop and justify the rate proposal. On page five of the application, the Corporation makes the following statement:

"The rate increases proposed in this application are based on SaskPower's financial forecast as of February 2, 2004, and revenues and expenditures presented in this application reflect this forecast. Discussion of the impact of the proposed rate increase on net income and financial targets, however, is based on more recent forecast financial information as of May 31, 2004."⁴

SaskPower's justification for its 2004 and 2005 financial requirements is provided on pages 11 to 20, inclusive, of its August 2004 application. This justification is based on the February 2004 forecast. However, the Corporation uses the May forecast to summarize the 2004 financial impact of the rate proposal.⁵ The Panel has, therefore, assumed that even though the May forecast anticipates a significantly lower projected net income for 2004, this amount is still sufficient to realize its financial goals for 2004 and 2005 in relation to proposed rates. This, obviously, raises questions as to why rate increases of 9% in 2004 and 1.8% in 2005, which have been justified on forecasted net income of \$114 million in February, are still appropriate when the May forecast identifies a net income that is \$66 million lower.

Following the submission of its rate application, SaskPower provided two additional forecasts of revenues, expenditures, and net income. The forecasts are dated August 31, 2004 and October 31, 2004. Because of their relevance for assessing the Corporation's electrical revenue requirements in 2004, the Panel has decided to conduct its analysis of the rate proposal, based on the 2004 yearend projections in the October 31, 2004, forecast.

The following table summarizes the implications of the four forecasts on SaskPower's financial requirements. The figures in this table represent the Corporation's utility operations – i.e. they exclude the operations of its subsidiaries, SaskPower International Inc. and NorthPoint Energy Solutions Inc., but include Power Greenhouses Inc. (i.e. the Shand Greenhouse).

⁴ SaskPower, SaskPower Rate Proposal, August 2004, p. 5.

⁵ See, for example, Ibid., p. 4 and p. 21.

**SaskPower Utility Operations
Forecasted Revenues, Expenditures, and Net Income,
Including Proposed Rate Increases for 2004 and 2005
Millions of Dollars**

	2003 From Applica- tion	2004 Forecast				2005 Forecast (May 31, 2004)
		Feb. 2, 2004	May 31, 2004	Aug. 31, 2004	Oct. 31, 2004	
Revenue						
SaskPower Customers	1,104	1,170	1,149	1,144	1,140	1,260
Export Revenue	92	55	76	72	72	22
Ancillary Revenue	24	23	23	24	24	24
Total Revenue	1,220	1,248	1,248	1,240	1,237	1,306
Expenses						
Fuel and Purchased Power	507	468	523	508	496	468
Operating, Main. & Admin.	292	299	304	304	304	310
Depreciation & Amortization	182	194	184	186	185	204
Taxes	28	27	27	27	25	29
Finance Charges	140	146	154	158	154	150
Total Expenses	1,149	1,134	1,192	1,183	1,164	1,161
Net Income before Foreign Exchange Gain	71	114	56	57	73	145
Foreign Exchange Gain	113	0	(8)	(7)	2	0
Net Income	184	114	48	49	75	145

Note: Columns may not add to totals due to rounding.

Sources: SaskPower, SaskPower Rate Proposal, August 2004, Appendix D; SaskPower, 2004 Forecast to Year-end Financial Statements and Corresponding Schedules, August 31, 2004, p. 7; SaskPower, 2004 Forecast to Year-end Financial Statements and Corresponding Schedules, October 31, 2004, p. 6.

Rate Shock

"Rate shock" occurs when a utility rate increase is deemed to be too large for customers to accommodate within their financial circumstances or to be introduced without adequate notice to allow customers to arrange their financial affairs to accommodate the increase. The Panel received submissions from customers who raised concerns about the magnitude of the increase (i.e. they accept that SaskPower has to raise its rates to recover its rising costs, but do not accept the manner in which this was done). Other customers objected to the manner in which the rate increase was introduced (e.g. announced in late July and implemented on September 1). The degree of concern, of course, varied among customer classes because of the difference in the impact of meeting SaskPower's financial requirements and rate rebalancing.

The following are examples of written submissions and comments the Panel received concerning the amount and the timing of the September 1, 2004, rate increase:

- "... Health Authorities set their budgets each spring with limited flexibility for contingency such as unexpected utility rate increases. It is desirable that future rate increases occur on April 1st.

The proposed rate increases will affect the region's electricity costs in the amounts of \$30,000 and \$59,071, respectively. As the Authority receives the majority of its funding from the Provincial Government, either funding will have to be provided to the Authority to cover this rate increase or the Region may have to cut programs/services or lay-off staff."⁶

- "... It is clear that Weyerhaeuser facilities play a significant role in Saskatchewan's economy, and for several communities in the north-central area, survival and prosperity are linked with Weyerhaeuser's success.

That success is continually threatened in every Weyerhaeuser business. Lumber duties and tariffs, rising exchange rates, fierce commodity markets, shrinking pulp and fine paper markets, and increasing domestic and offshore competition make low cost manufacturing the key to survival. Abrupt and significant change in cost inputs, such as that proposed by SaskPower, is another threat to our competitive position. Most suppliers work diligently with our facilities to make both business partners successful."⁷

- "The timing of this increase is awful. Farmers are turning on air fans in record numbers to try to persevere the difficult circumstances they are faced with. Grain prices are low, moisture is high, quality low, with utilities going through the roof. It conveys a message of gouging, when people are struggling, big -time".⁸
- "I realize that I am just one voice, but I feel I must say I am disappointed and disgusted with SaskPower's request for an increase. I can barely afford to pay this one bill right now, and an increase will cause me to either move or go without other necessities. It is no wonder so many of us young people from Saskatchewan move, we cannot afford to live here."⁹
- "My objection is based on my belief that the majority of Sask. residents are not financially capable of carrying any more expenses. Our agriculture industry has been put into gross economic deficit out of little to no fault of its own A year of reprieve would be most welcome, as few people will be seeing wage increases this year and many are facing de-employment Although this is a separate Crown Corporation, I would think our province and your corp. should show its people the same loyalty and respect. Have a heart!"¹⁰

Based on these submissions, the Panel has concluded that SaskPower's proposal to increase electrical rates by a weighted average of 9.0% in 2004 constitutes rate shock. While certain cost factors, such as fuel and purchased power costs, may be causing major pressures on the utility's electrical rates, we believe that the proposal could be implemented through a more phased approach that spread out the impact of increasing rates over a longer period (e.g. bringing forward a rate application earlier in the year with a smaller increase).

The decision to introduce an interim rate increase on September 1, 2004, is not a matter for the Panel's consideration. Our focus is on the actual rates that will be implemented.

⁶ Letter from President and Chief Executive Officer, Heartland Health Region, September 23, 2004.

⁷ Weyerhaeuser Saskatchewan, Submission to the Saskatchewan Rate Review Panel: SaskPower 2004/2005 Rate Change Proposal, October 21, 2004, p. 3.

⁸ E-mail to the Panel from an individual, September 22, 2004.

⁹ E-mail to the Panel from an individual, October 20, 2004.

¹⁰ E-mail to the Panel from an individual, October 27, 2004.

Financial Analysis and Implications for SaskPower Rates

SaskPower's application justified the proposed rate increases for 2004 and 2005 on the following forecast of net income:

**SaskPower Utility Operations
Forecasted Net Income
Millions of Dollars**

Net Income Component	2004 Net Income Forecast	2005 Net Income Forecast	Combined 2004 and 2005 Net Income Forecast
Status quo net income forecast	13.5	33.6	47.1
Effect of Application	33.9	110.7	144.6
Impact on Finance Charges	0.3	0.6	0.9
Net Income	47.7	144.9	192.6

Note: Based on May 31, 2004 forecast.

Source: SaskPower, SaskPower Rate Proposal, August 2004, p. 21.

In light of the revised estimates from the subsequent August and October forecasts, the Panel made the following observations:

- The October 31, 2004, net income forecast to yearend is \$27 million higher than was anticipated in the May 31, 2004, forecast on which SaskPower justified its rate proposal.
- The application also includes a rate increase in 2005. However, the Panel notes SaskPower has provided no indication that the financial requirements forecast for 2005, as presented in its application, will be any different than what has been used to justify its rate proposal for that year.
- The most significant factor contributing to the volatility of SaskPower's net income appears to be the fuel and purchased power expense, net of export revenues. Under current conditions, forecasting this category of expenditure is uncertain and challenging.

To confirm the appropriateness of these conclusions, we asked our consultant to confirm, independently, our observations and to comment on whether the proposed increases in SaskPower's application could be reduced in light of the utility realizing higher net income for 2004.

The following is our consultant's summary of its independent analysis of SaskPower's financial requirements:

"Dillon's review of the cost/revenue changes (August 31, 2004 update) suggests that SaskPower's financial health will be modestly better than in 1999 [when the return on equity was 16%¹¹] if the requested rate increases are approved. Consideration of the October 31, 2004 updated financial forecast, net of F&PP [Fuel and Purchased Power] in particular, suggests that in 2004, SaskPower will have \$30 M more in net revenue than originally forecasted in its rate proposal.

Dillon's analysis of individual cost components would suggest that SaskPower could experience:

- Higher or lower natural gas prices with cost impacts of $\pm$ \$20 M compared to August 31, 2004; a forecast of a \$10 to \$20 M cost increase is the more likely scenario.
- More hydro-electric generation than forecast, resulting in net F&PP reductions of \$20 - \$25 M compared to the August 31, 2004 forecast. The October 31, 2004 budget update indicated a \$15 - \$20 M reduction had already been achieved.
- No change in coal energy production or cost.
- Modest, if any, increase in export sales revenue.
- More low cost imports than originally forecasted in the Proposal, which could reduce gross F&PP costs by \$10 - \$20 M. The October 31, 2004 budget update indicated that with 29% more imports, a \$15 $\pm$ M saving may have already been achieved.
- Depreciation costs that are lower than forecasted by \$7 M/year.
- Financing charges would increase to reflect increased investments in new generation by \$13 M in 2004; \$13 M in 2005; and \$14 M in 2006, in accordance with the 2005 Business Plan. If the foreign exchange adjustment, based on the October 31, 2004 Canadian dollar value of 0.83 ϵ U.S. were included, there would be about a \$13 M improvement in SaskPower's financial position.

The above possible changes in individual cost components are not directly additive as their potential impacts can overlap significantly. However, it is reasonable to suggest that in light of post-application developments, SaskPower's increase in revenue requirements could be \$25 to \$30 M lower for 2004. Overall, this could translate into a 2.0 to 3.0% reduction from the 9.0% requested rate increase.

Such a reduction would be primarily felt in 2005 and as such, would reduce the 2005 net incomes by \$25 - \$30M. There might not be any significant further savings in 2005 because the most significant risk to SaskPower is natural gas pricing. As such, the 1.8% rate increase for September 1, 2005 should remain conditional, possibly subject to adjustment based on early mid-year 2005 financial results.

It is likely that with the changing domestic load make-up, annual rate increases of 1 to 2%, not including inflation, may be required in 2006 and onward¹².

This conclusion is consistent with and supports the Panel's observations.

Conclusions and Recommendations on SaskPower's Revenue Requirements

- ***SaskPower's proposal for a September 1, 2004, weighted average rate increase of 9% is too high. This conclusion is based on two factors:***
 - a) *rate shock identified by many SaskPower customers; and*
 - b) *higher than anticipated net income for 2004 as identified through recent forecasts of the utility's revenues, expenditures, and net income.*
- ***SaskPower's proposed weighted average rate increase, effective on September 1, 2004, should be reduced by at least three percentage points (i.e. 6% increase rather than 9%).***

¹¹ Dillon Consulting Limited, op. cit., p. 10.

¹² Ibid., pp. ii - iii.

- *In light of the volatility of fuel and purchased power costs, net of export revenues, the Panel has concluded that SaskPower should be directed to undertake further analysis of the utility's revenues, costs, and net income to determine the reasonableness of its rate proposal for 2005. In other words, the Panel is not prepared to recommend approval, at this time, of SaskPower's proposal for a weighted average rate increase of 1.8% effective on September 1, 2005. The Panel recommends that SaskPower should be directed to submit a separate and updated application for a further rate increase in 2005, if warranted.*

Rate Rebalancing and Rate Redesign

Issues

Purpose and Application of Rate Rebalancing

In its application, SaskPower has defined rate rebalancing as follows:

"A process bringing the electrical rates charged to different customers closer to the cost of service. For SaskPower, rebalancing requires negotiating rates for large-volume customers, while reducing the subsidy for farm and residential customers."¹³

There are several references within the application to the intent and approach that SaskPower has followed in implementing this "process" of rebalancing:

- "SaskPower, in common with many utilities, has had a legacy rate structure that included significant cross-subsidies, benefiting various rate classes at the expense of others. An increasingly competitive market structure has required the reduction and elimination of these cross-subsidies in order to send appropriate price signals across the market. Influencing this trend has been an increasing unwillingness by various customer classes to continue to subsidize other rate classes. This unwillingness is driven by a sense of equity and a desire to reduce costs".¹⁴
- "Equity in the rate structure is reflected by the revenue to revenue requirement (R/RR) ratio, which measures revenues against the cost of service SaskPower's policy is to develop rates that have ratios that fall between 0.95 and 1.05 for each customer class, in accordance with industry standards."¹⁵
- "This rate application incorporates the final step in a four-year plan to reduce cross-subsidies in the SaskPower rate structure. The first two steps were taken with the rate increases on April 1, 2001 and January 1, 2002. The third year of rate rebalancing did not take place as planned because no rate application was filed for 2003 Despite missing one year of rebalancing, the current rate application provides for all customer classes in the new ten-class system to be in the 0.95 to 1.05 R/RR target range after the proposed rate change for 2004 is implemented"¹⁶

The use of Crown corporations' utility rates as a tool for achieving certain public or social policy objectives is an issue that is being actively debated in Saskatchewan and elsewhere.¹⁷ If utility rates are adjusted to achieve these objectives, should these be financed internally (e.g., from among the customer classes through cross-subsidization) or should they be financed by the

¹³ SaskPower, SaskPower Rate Proposal, August 2004, p. 32.

¹⁴ Ibid., p. 22.

¹⁵ Ibid., p. 22.

¹⁶ Ibid., pp. 22 – 23.

¹⁷ The Saskatchewan Urban Municipalities Association, for example, has proposed rate subsidization for electricity used by municipal recreation facilities, particularly indoor rinks. (Letter from the Association's President to the Minister responsible for SaskPower, August 31, 2004; copy sent by the Association to the Panel.)

external public authority that has imposed these objectives on the corporation's rate structure (e.g. from the taxpayer through direct cash subsidies or rebate programs)?

The Panel sees this debate on whether there should be public or social objectives as being beyond its general mandate. However, once a decision has been made to introduce such objectives to the rate structure, the method by which they are financed is, in our opinion and in light of current and past Minister's Orders, within the Panel's mandate. This is because the Panel is required to comment on the fairness and reasonableness of rate proposals in relation to the interests of the customer, the Crown corporation, and the public.

During its review, the Panel attempted to obtain a clear statement from SaskPower on whether any public or social policy objectives were built into its rate rebalancing proposal. There was nothing in the rate application document to confirm this point – except the above-note references, which implied a movement to reduce or eliminate existing cross-subsidies in the rate structure. At one point during the Panel's questioning of SaskPower officials, we were advised that the Corporation's goal is to move R/RR ratios for all customer classes as close to 1.0 as possible, recognizing that cost fluctuations present implementation challenges.

However, later presentations by SaskPower's officials during the Panel's public consultations and their discussions with our consultant revealed that cross-subsidization has been built into the utility's rate rebalancing plan. The following table illustrates the extent of cross-subsidization among SaskPower's customer classes and how the rebalancing strategy initiated in 2001 and proposed for completion in 2004 has affected the subsidization among customer classes:

**SaskPower's R/RR Ratios by Customer Class
1999 – 2004**

Customer Class	1999 – 2000 Average (Before Rebalancing)	2001 – 2002 Average	2004	
			Existing Rates	SaskPower Rate Application
Urban residential	0.95	0.99	0.98	0.98
Rural residential	0.88	0.92	0.95	0.97
Farm	0.92	1.01	1.02	0.99
Urban commercial	1.05	1.04	1.03	1.02
Rural commercial	0.93	1.01	1.02	1.02
Power rate	1.03	1.01	0.95	1.00
Power contract	1.02	0.98	1.00	1.00
Oilfields	1.12	1.05	1.02	1.02
Street lights	1.25	1.16	1.11	1.03
Reseller	0.97	0.96	0.95	1.00

Note: Data for 2003 are not available

Source: Dillon Consulting Limited, *op. cit.*, p. 37 (Table 7.1)

As noted by our consultant, the current proposal involves completing the rate rebalancing strategy, but still retaining certain elements of cross-subsidization among classes:

- "SaskPower has stated that its long-term target is to have the R/RR ratio for residential and farm customers between 0.95 and 1.00 and all other classes between 1.00 and 1.05. This long-term target policy perpetrates an inherent bias to cross subsidization between and within customer classes."¹⁸
- "... the R/RR ratios tend to remain in the 0.95 to 1.00 range for residential and commercial, and remain in the 1.00 to 1.05 range for power and oil field customers. While these results would appear to have been justified on a societal value basis rather than on a true equal cost for equal service basis, a move towards a target of 1.00 for all classes is the industry norm and one that SaskPower should strive for in its rate design on a going forward basis. To do otherwise, perpetuates an inherent benefit to some customers at a continued cost to other customers. This is a practice that is difficult to justify as 'fair and just', especially if this inherent cross subsidization continues for a number of years. The move toward a R/RR of 1.0 may produce rate shock, unless a long-term strategy is developed, as was the approach started by SaskPower in 2001."¹⁹

Our concern is that SaskPower appears to be incorporating public or social policy objectives, which are implemented through cross-subsidization among the customer classes, but that it has not articulated these objectives in its rate application. We feel that this is a critical element in understanding the Corporation's rate rebalancing strategy and that these objectives should be clearly outlined in future rate applications – even if they are presented as givens and beyond the Panel's mandate.

Furthermore, we believe that there should be an explanation of the method of financing the cross-subsidies – internal versus external. The Panel is mandated to review the "fairness" and "reasonableness" of the proposed rate structure. Therefore, either the cross-subsidization principles should be stated as "givens" or alternatively, some rationale needs to be provided in the application to allow the Panel to evaluate how these principles serve the interests of the customer, the Crown corporation, and the public.

Purpose and Application of Rate Redesign

SaskPower defines rate redesign as the process by which "imbalances within the rates themselves" are addressed and "involves adjusting the components of the rates, which include the basic monthly charge, the demand charge and the energy charge".²⁰ Therefore, within a rate class, individual customers may face different rate increases, depending on their use of electricity and the manner in which costs are recovered in the rate structure through the three rate components.

To illustrate the implications of how the costing and structural decisions affect specific customers, the Panel's consultant provided the following analysis of SaskPower's current approach to recovering its revenue requirements within the rate classes:

"SaskPower's current Cost of Service Methodology, in keeping with the costs causation principle, has moved toward cost sharing on the basis of contribution to the total system peak (e.g., a 1-CP approach²¹).

¹⁸ Dillon Consulting Limited, *op. cit.*, p. 37.

¹⁹ *Ibid.*, p. 40.

²⁰ SaskPower, *SaskPower Rate Proposal, August 2004*, p. 23.

²¹ The "1-CP" refers to the "coincidental peak method, 1 hour peak" approach to allocating costs (demand charges) to rate classes, based on the contribution each class makes to the system's peak load. The allocation factors are the ratio of the class load at the time of the system's peak to the total load. The rationale for using the CP method is that the total installed system's capacity is based on the coincident peak. System planners normally look only at the peak hour when designing electrical facilities. Under this reasoning, only those customers who actually impose a load at the time of the system peak should bear the cost responsibility for the capacity installed. The major shortcoming of

This approach tends to assign costs to each customer class not on a customer's maximum demand, but rather on the basis of a customer's share during the system maximum demand.

It also allocates fixed costs required to build facilities to demand, and variable costs such as fuel and power purchases plus operating, maintenance, and administration costs primarily to energy. This does not appear consistent with SaskPower's billing practices where energy charges substantially exceed the allocated energy costs, and demand (or customer service) charges do not cover the greater part of the demand cost allocations. However, the foregoing is consistent with most other utilities. Metering of energy is relatively simple and as such, all customers have energy measurements. However, it is only larger customers, such as power and resellers that have demand meters; residential and small customers do not.

Because demand cost allocations are essentially fixed (by previous capital/debt levels), cost recoveries via demand charges should rise at relatively predictable rates. In SaskPower's system, net fuel and purchase costs (80% of variable costs) tend to fluctuate considerably. Consequently, these can be as low as 25% and as high as 50% of total annual expenses.

If variable costs (fuel and purchased power and operating, maintenance, and administration) were typically within a narrow range, the cost of service model would reliably define the class Revenue to Revenue Requirement ratios. This is not the case for SaskPower. The variable costs tend to differ between 85% and 115% of average on a year to year basis, resulting in R/RR ratios that also fluctuate significantly on a year-to-year basis.

It could be argued that the cost of service model is useful in dealing with the fixed cost component, but not the variable cost component. This logically suggests variable costs should be treated as pass-through costs and that only fixed costs be allocated on a system coincident peak basis. . . .

If SaskPower were to separately deal with flow through net fuel and purchased power costs and fixed (embedded) asset costs, there would be a shift from favouring higher load factor customers to favouring lower load factor customers. Overall, there could be a better cost causation principle adherence."²²

The issues raised in this illustration of SaskPower's rate design have significant implications on how the utility's costs are allocated to and recovered from specific customers through the rate structure. These have implications to determining the fairness of the rate structure. However, these matters are outside of the Panel's mandate because they arise from the Corporation's cost of service methodology, which has been deemed to be a "given" for the purposes of this review.

According to Appendix H of SaskPower's August 2004 rate application, the Corporation intends to introduce numerous changes to the basic monthly, energy, and demand rates.²³ These changes vary by customer class and rate code. We understand that the purpose of these changes is to limit the impact of rate increases on individual customers (i.e. no more than 25% in 2004 and 10% in 2005, except for manufacturers where the increase is limited to 11% in 2004).

Cost of Service Methodology

SaskPower has identified rebalancing and rate design as important elements in ensuring the fairness of the rate structure because "current rates do not adequately reflect the cost of providing service to the various classes".²⁴ Within the 0.95 to 1.00 range for the R/RR ratio, the corporation's 2004 rate proposal represents, in the Corporation's opinion, a fair allocation and

CP is that it fails to allocate any demand responsibilities to customers who use the system at other than the time of the system's peak.

²² Dillon, *op. cit.*, p. 45 – 46.

²³ SaskPower, *SaskPower Rate Proposal, August 2004*, pp. 49 – 76.

²⁴ *Ibid.*, p. 21.

recovery of the utility's costs of providing electrical service to its customers. For the Panel to evaluate the proposal, two issues must be considered:

- a) The clear articulation of the principles and methodology on which costs will be allocated to each class of customer; and
- b) The implementation of these principles and methodology in calculating specific rates for each class to recover the allocated costs from the respective customer.

In its December 6, 2001 report to the Minister of Crown Investments Corporation, the Saskatchewan Rate Review Panel provided recommendations concerning a rate proposal from SaskPower. The following is an excerpt of the Panel's comments concerning rate rebalancing as it pertained to the utility's 2001 rate application:

"The Panel recognizes that SaskPower must take steps to correct the inequities inherent in the current rate structure and that rate rebalancing is an essential step. The Panel further recognizes that the industry standard for the R/RR is a range rather than a fixed ratio.

Rate and R/RR structures are complex formulae dependent upon a range of factors. There are significant variations of revenue/cost relationships not only between rate classes but also within the classes themselves. The Panel notes time constraints did not allow for an opportunity to review specific goals, allocation methodology and the impact of a four-year rebalancing plan. A full review at this time would determine if Rate Rebalancing allocations are on target, or if further shifts of costs are required to reach parity within customer classes. The Panel believes a detailed Cost of Service Study would be beneficial to all parties.

The Panel recommends a detailed Cost of Service Study be completed prior to the next rate application by SaskPower."

In response, SaskPower engaged the services of Foster Associates Incorporated (of Bethesda, Maryland) in 2002 to provide "a review of SaskPower's existing cost-of-service methodology and recommendations in terms of ideal cost based rates and minimum charges".²⁵ The report included numerous recommendations, including some involving changes and others confirming the appropriateness of continuing existing practices.

The Panel received a copy of Foster Associates Incorporated's report in November 2002. Since the Panel did not receive instructions through a Minister's Order to review the report, the information was received by the Panel without taking any further action.

With the Minister's Order to review SaskPower's August 2004 rate application, the Panel provided a copy of the Foster Associates Incorporated's report to our consultant for information. Additionally, the Panel noted the following:

- The Panel, in 2001, considered the cost of service methodology and implementation study to be important elements to evaluating future rate applications from SaskPower.
- Based on our consultant's analysis, the Panel understands that recommendations in the Foster report have been incorporated in SaskPower's 2004 rate proposal.

²⁵ Foster Associates Incorporated, Review of SaskPower Costing and Pricing Methodologies, October 2002, p. 1.

- The Minister's Order of July 29, 2004, directs the Panel to consider "the cost of service methodology which allocates SaskPower's costs between the various rate classes" as a "given".

In summary, the 2004 rate rebalancing and redesign proposals include the impact of changes to the way that SaskPower allocates its cost of service to various customer classes. The Panel's mandate does not extend to commenting on the implications of the fairness and reasonableness of these changes. This is a major undertaking and would best be done outside of the regular rate adjustment process.

We note that in its 2004 rate proposal, the Corporation makes the following statement:

"In 2002, SaskPower had an external review of its costing methodologies that confirmed that its approach was in accordance with established industry practice."²⁶

While our consultant has advised us that changes, resulting from recommendations in the report, are part of the 2004 application, we were unable to find any references in SaskPower's application document to explain these changes or their impact on the proposed rate structure. We believe that these changes are beyond the Panel's mandate. However, they are critical to understanding the impact of the rate proposal on classes of customers and in the case of major users of electricity, on specific customers.

Through our consultant, SaskPower has advised us that the most significant change in methodology involves using "a single (one hour) system winter coincident peak (called 1-CP²⁷) to define demand charges for all classes" and resulting in "only customer transformers [continuing] to be cost allocated on the basis of class maximum demand".²⁸ SaskPower also identified the following implications from this change in cost allocation:

- "A reduction of allocated costs to low load factor customers such as residential, commercial, and farm (rural residential probably gained the most).
- An increase in allocated costs to higher load factor power customers, oilfields, and resellers. (The reseller class probably had the biggest negative impact, followed by oilfields, and then power customers.)"²⁹

Based on this information and a "cursory comparison of the class coincident peak demands and non-coincident peak demands", our consultant has concluded that:

"the change to 1-CP improved the revenue to revenue requirement ratios in the same manner: favourably for low load factor customers and unfavourably for high load factor customers".³⁰

Application of the Cost of Service Methodology

SaskPower's officials have asked the Panel to perform, as part of its review of the 2004 rate application, an audit function by confirming the costs have been allocated to specific customers in accordance with this "given" methodology. They have also told the Panel that the allocation

²⁶ SaskPower, *SaskPower Rate Proposal, August 2004*, p. 22.

²⁷ See footnote 21 for a discussion of the 1-CP method of cost allocation.

²⁸ Dillon Consulting Limited, *op. cit.*, p. 36.

²⁹ *Ibid.*

³⁰ *Ibid.*

process involves a review of commercially sensitive information, which therefore must be treated in a confidential manner. Accordingly, much of this review would be undertaken without full public disclosure of the relevant information and would be carried out on a customer-by-customer basis. This process would be very time consuming and outside of our understanding of the Panel's role.

The Panel has carefully considered this request. The Minister provided the Panel with a mandate to review the implementation of the cost of service methodology underlying the 2004 rate proposal. However, the Panel also has two practical concerns in proceeding with this request.

First, this type of analysis involves considerable technical analysis, which the Panel could not conduct within the timeframe allocated to its review. We asked our consultant to advise us on whether such a review could be conducted, based on the information that was provided by SaskPower. Our consultant's response is as follows:

"The information supplied by SaskPower in its Application allows one to confirm the scale of proposed rate increases and directionally determine the impacts to various customer classes and, to a lesser degree, possibly individual customers. It does not however provide sufficient detail on specific impacts or future positive and negative impacts to confirm a definitive answer to the question of 'fair and reasonable'.

It is possible to selectively offer opinions on the directional impacts on customers and their energy bills. However, this in no way suggests that this review has had sufficient information and time to fully digest the scope of SaskPower's rate rebalancing exercise or its longer term impacts. Impressions gained from what has been a review with a limited scope are:

- The rate rebalancing process (over the last five years) undertaken by SaskPower has addressed some short-term imbalances, but has perpetuated long-term imbalances between residential/farm/commercial and industrial or large (power/oilfield/reseller) customers.
- Changes to the COS [cost of service] process have favourably impacted residential/farm/commercial customers and may have provided continued support for the subsidization of these classes.
- Changes to the COS process have unfavourably impacted power and reseller groups by increasing their cost share.
- Changes to the billing rates (cost shifts between demand and energy) appear to have been somewhat arbitrarily determined and reflect a continuation of historical revenue to revenue requirement ratios.
- Using different RORBs (return on rate bases) for different classes of customers is not in the spirit of typical cost of service methodologies.

SaskPower's intent was to complete its rate rebalancing process in 2004/05. Changes to the COS process and a better appreciation of the impact of the role that net fuel and purchased power plays in the revenue requirement suggests that the cost allocation will continue to be adjusted annually. Thus, the need for an annual cost of service study. SaskPower has confirmed that it does not provide detailed cost of service model information to customers because much of the information is commercially sensitive in nature and because of privacy concerns. While SaskPower has provided summaries of their detailed cost of service results by customer classes to the Panel and Dillon, and would like the Panel and Dillon to provide an independent ruling on the fairness and reasonableness of SaskPower's cost of service studies, this is not possible due to time constraints and the requisite work involved, and as it was not within the mandate of the consultant to do so. Until a complete cost of service study is filed and reviewed, it is beyond our ability on the basis of information provided to suggest that the 2005 rebalancing adjustment be undertaken or implemented as submitted."³¹

Notwithstanding that we believe such a review is beyond the Panel's current mandate, our consultant has advised us that SaskPower has not supplied sufficient information to allow the

³¹ *Ibid.*, p. 43 - 44.

Panel to conduct audits of the cost allocations, underlying the 2004 rate application, on specific customers.

Our second, and more significant concern, pertains to the confidentiality issue. The Panel serves to provide independent advice to the government, which is in addition to the technical and policy advice that it received from the Crown corporations' officials. The effectiveness of our role depends on reviews that are based on the principles of open and transparent consultation processes, independence from the applicants (i.e. the Crown corporations), and recommendations that are fully and sufficiently justified to stand on their own.

SaskPower is asking us to audit the cost of service analysis with information that must remain confidential. We have a number of questions concerning this request:

- How can the Panel justify to the public its conclusions on a cost of service analysis if it is prevented from including in its report critical information that has been deemed to be "commercially sensitive" or subject to privacy considerations and that is therefore confidential?
- How can the Panel become aware of and evaluate different points of view on the implementation of the cost of service allocation when, because of the confidentiality of certain information, it is only able to discuss these matters with the applicant?
- How can the Panel perform its primary role of balancing the interests of the customer, the Crown corporation, and the public when two of the three parties are excluded from the review due to confidentiality considerations?
- On what basis is information deemed to be "commercially sensitive"? Is this a unilateral decision by SaskPower?

These questions must be fully discussed by all parties who have an interest in the Panel's recommendations.

For these reasons, we are unable to perform an audit of the cost of service allocation at this time. We would like to see a process established to examine the issues of information requirements, resources, and timing for undertaking such audits. As well, the Panel and the government need to agree on appropriate policy and procedures that provide a balance between the Crown corporation's commercial interests and the Panel's desire to keep the review process as open and transparent as possible.

The Implications of Rebalancing on SaskPower's 2004 Rates

SaskPower has placed considerable priority on implementing the rebalancing changes within its 2004 rates. According to its August 2004 rate application, the Corporation has offered the following comment about the impact of a delay in implementing its rate rebalancing proposal:

"In the event that this rate rebalancing does not proceed as requested, it will likely be necessary to significantly adjust the applicable rates in 2005. This consequence will be unattractive to the ratepayers who are currently subsidizing others and who have relied on previous representations of balanced rates by 2004."³²

³² SaskPower, SaskPower Rate Proposal, August 2004, p. 23.

Under the current rate structure, cross-subsidization exists among various classes. As is shown in the following table, the proposed rebalancing will have an overall effect of reducing the customer class deviations from a R/RR ratio of 1.0.

**Revenue/Revenue Requirement Ratios
Existing and 2004 Proposed Rate Structures**

Customer Class	Revenue/Revenue Requirement (R/RR) Ratio	
	Existing Rates	2004 Proposed Rates
Urban residential	0.98	.098
Rural residential	0.95	0.97
Total residential	0.97	0.97
Farms	1.02	0.99
Urban commercial	1.03	1.02
Rural commercial	1.02	1.02
Total commercial	1.03	1.02
Power – published rates	0.95	1.00
Power – contract rates	1.00	1.00
Total power	0.99	1.00
Oilfields	1.02	1.02
Streetlights	1.11	1.03
Reseller	0.95	1.00
Total (system-wide)	1.00	1.00

Source: SaskPower, SaskPower Rate Proposal, August 2004, p. 23.

However, we also note that even under the existing rates, the R/RR ratios for the most part fall within the targeted range of 0.95 to 1.05. The “streetlights” customer class is the only one falling beyond the targeted range.

Our consultant identified a number of consequences arising from SaskPower’s implementation of its current cost of service methodology:

- “The most recent application of the cost of service methodology directs some additional costs toward the power/reseller customer classes and away from residential/farm/certain [rural] commercial sub-classes.
- The application of the model is relatively sensitive to the (net) fuel and purchased power levels, resulting in a revenue-to-revenue requirement that can change dramatically on a year-to-year basis.
- The application of the model is somewhat favourably biased toward classes with R/RR ratios below one (residential and farm) and consequently tends to perpetuate historical inequities in the rate rebalancing exercise.
- The trend to increased (net) fuel and power purchase costs going forward, may continue to reduce R/RR ratios for those classes with little or no distribution in this rate base (power & reseller) and consequently somewhat understate the revenue requirement to fund the distribution component for residential/farm/commercial/oilfield classes.
- The application of the model appears to support a policy of subsidizing residential/farm/certain [rural] commercial sub-classes at the expense of the remaining classes.

- The application of the model suggests cost allocations should be heavily weighted toward the non-variable demand and customer components. This is significantly different from the revenue collections (billings) which are strongly weighted toward energy.³³

In our view, there are also significant rate rebalancing issues that have not been fully addressed by SaskPower in its 2004 rate application and therefore, which do not give us sufficient comfort that the new rate structure will be any more or any less fair and reasonable than the current structure. We come to this conclusion for several reasons that have already been cited in this report:

- There is lack of clarity on the extent and rationale for cross-subsidies that have been retained in the rate structure.
- Insufficient information has been given on the implications of changes to the cost of service methodology – recognizing that this is not within the Panel's mandate, but is still a significant factor in understanding the impact of the proposed rate changes.
- Insufficient information has been provided to allow an analysis of the implementation of the cost of service methodology.
- Several major customers have expressed concerns about not having sufficient information to understand the rationale for the impact of the proposal on the rates that will be charged to them. For some, the information that they require is deemed by SaskPower to be commercially sensitive.

A declaration that the cost of service methodology is a given and that certain aspects of the application of methodology is commercially sensitive and therefore confidential does not absolve SaskPower from its responsibility to explain the rationale and implications of its rate decisions to its customers. The Crown corporation should have an interest in developing and maintaining good relations with its customers.

Based on the paucity of rationale and justification in SaskPower's rate proposal document, the observations identified through our consultant's work, and the numerous questions and complaints received from customers concerning the impact of the proposal on individual accounts, the Panel cannot come to a conclusion that the rate rebalancing proposal meets the test within our mandate – that is, the adjustments are fair and reasonable and that they balance the interests of the customer, SaskPower, and the public. We know SaskPower's interest in the proposal, but we are not convinced that we know how customers and the public view the proposal, particularly if they were advised of the underlying principles and consequences of the rebalancing and redesign proposal.

We are also concerned about the frustrations that were expressed to the Panel by SaskPower's major customers. Many of the concerns seemed to point to a deteriorating working relationship between the parties. The Panel is not in a position to express an opinion on the causes of the disagreements nor does it wish to compromise its independence and neutrality by intervening in or adjudicating on matters and relationships that go far beyond a single rate application.

³³ Dillon Consulting Limited, *op. cit.*, p. iii.

Conclusions and Recommendation on the Cost of Service Allocation Studies

- ***To the extent that the cost of service methodology is a “given”, the Panel is unable to express an opinion on the fairness and reasonableness of the rate rebalancing and redesign elements of the 2004 SaskPower rate proposal. It has taken this position because:***
 - a) an evaluation of the cost of service methodology is beyond the Panel’s mandate (i.e. it is to be treated as a given),***
 - b) within its rate application document, SaskPower has not provide sufficient explanation and rationale for the implications of its rebalancing and redesign decisions;***
 - c) insufficient time and information has been provided to conduct an audit of the application of the cost of service methodology; and***
 - d) the Panel is concerned about compromising its principle of holding open and transparent reviews, if it is required to undertake its evaluation with confidential information.***
- ***That the Minister reconsider designating the cost of service methodology as a given within the rate review process and that a Minister’s Order be issued for a separate review of the methodology (design and implementation), prior to the consideration of SaskPower’s next rate application.***

The Implications of the Panel's Recommendations on SaskPower's August 2004 Rate Application

The Panel asked its consultant to provide supplementary advice on the implications for SaskPower's 2004 rates if the weighted average increase is scaled back from the proposed 9% to our recommended 6%. In assessing the impact of the lower increase on the existing rates for specific customer classes, it is necessary to consider the implementation of the cost of service allocation changes, as well as the differential effects of expenditure growth among customer classes. These factors have a significant impact on the revenue requirements for cost recovery – and hence, the rate increases within the weighted average rate -- for specific classes in order to achieve R/RR ratios serving the Corporation's objective of reducing the magnitude of the cross-subsidization among customer classes.

Our consultant estimated that approximately two-thirds of the utility's additional revenue requirements (at a 9% weighted average rate increase) are required to recover increases in the cost of fuel and purchased power. While all customer classes are affected by these additional costs, fuel and purchased power costs are particularly significant for large power class customers – notably power rates, power contract, and resellers. Our consultant provided the following allocation factors to illustrate the differential effects of fuel and purchased power costs on the customer classes:

Impact of Fuel and Purchased Power Cost Increase By Customer Class

Customer Class	Allocation Factor
Urban residential	0.75
Rural residential	0.63
Farms	0.81
Urban commercial	1.00
Rural commercial	0.87
Power rates	1.32
Power contract	1.41
Oilfields	1.00
Reseller	1.36
Street lights	0.30

Source: Dillon Consulting Limited, op. cit., p. 42 (Table 8.1)

If the allocation factors for all customer classes were the same, then the impact of fuel and purchase power cost increases would be applied proportionately to all classes. However, this table shows that the allocation factors are not equal – varying from a low of 0.30 for rural residential to a high of 1.41 for power contract.

The R/RR ratios among customer classes depend on how the rates for specific customer classes are adjusted to reflect the differential impact of fuel and purchased power costs and the implementation of a new cost allocation methodology. Cross-subsidies can then be evaluated by the extent to which the R/RR ratios diverge from 1.0. The following table has been prepared by

our consultant to reflect the cross-subsidization under the existing rates, under SaskPower's proposal, and under options considered by the Panel:

**Revenue to Revenue Requirement Ratios
Existing and Proposed, 2004**

	R/RR (Existing Rates)	2004 Cost of Service Allocation				Saskatchewan Rate Review Panel Recommendation	
		9% Weighted Average Increase		6% Across the Board Increase		6% Weighted Average Increase	R/RR
		Rate Increase	R/RR	Rate Increase	R/RR		
Urban residential	0.98	8.7	0.98	6.0	0.99	6.0	0.99
Rural residential	0.95	13.0	0.97	6.0	0.97	8.0	0.97
Farm	1.02	7.0	0.99	6.0	1.02	5.5	1.01
Urban commercial	1.03	8.0	1.02	6.0	1.02	5.5	1.02
Rural commercial	1.02	10.0	1.02	6.0	1.00	6.0	1.01
Power rates	0.95	13.2	1.00	6.0	0.97	8.0	0.99
Power contract	1.00	7.5	1.00	6.0	1.02	5.5	1.01
Oilfields	1.02	10.0	1.02	6.0	1.02	5.5	1.01
Street lighting	1.11	0.0	1.03	6.0	1.09	0.0	1.09
Reseller	0.95	14.0	1.00	6.0	0.97	8.0	0.99
Average	1.00	9.0	1.00	6.0	1.00	6.0	1.00

Source: Dillon Consulting Limited, special calculations

According to our consultant's calculations, a 6% across the board rate increase that applies to the 2004 cost of service allocation would maintain or increase the overall cross-subsidization in various customer classes, thereby reversing portions of SaskPower's rebalancing process. Specifically, the following customer classes would experience larger over-contributions to the cost of service (i.e. R/RR greater than 1.0) under the 6% across the board rate increases versus the SaskPower proposal:

- Farm (SaskPower: 0.99; Across the Board: 1.02)
- Power contract (SaskPower: 1.00; Across the Board: 1.02)
- Street lights (SaskPower: 1.03; Across the Board: 1.09).

For the following customer classes, there would be larger under-contributions under the 6% across the board proposal versus the SaskPower proposal:

- Rural commercial (SaskPower: 1.02; Across the board: 1.00)
- Power rates (SaskPower: 1.00; Across the board: 0.97)
- Resellers (SaskPower: 1.00; Across the board: 0.97).

There would be limited or no changes to cross-subsidization for the following classes:

- Urban residential (SaskPower: 0.98; Across the board: 0.99)
- Rural residential (SaskPower: 0.97; Across the board: 0.97)

- Urban commercial (SaskPower: 1.02; Across the board: 1.02)
- Oilfields (SaskPower: 1.02; Across the board: 1.02)

To reduce the variation in the R/RR ratios, the Panel asked its consultant to develop differential rate increases for the various classes to produce a weighted average increase of 6.0%. The Panel's proposed increases, as shown in the preceding table, cause more customer classes to achieve a R/RR ratio between 0.99 and 1.01, than occurs under the existing rates or SaskPower's proposal.

Our proposal results in seven of the ten customer classes falling within this narrow range. Only one class under the existing rates and four classes under SaskPower's proposal are within this range.

Of the three classes that are outside of the range under the Panel's recommendation, all have R/RR ratios that are closer or equal to the ratios under the existing rates. There is only one customer class – street lights – where SaskPower's proposal results in a R/RR ratio that is lower than the Panel's proposal and the existing rates:

- The rural residential class under the Panel's proposal is 0.97, which is the same as SaskPower's proposal, but closer to 1.0 than the existing rates' ratio of 0.95.
- Our rate recommendation for the urban commercial customer class achieves the same R/RR ratio as SaskPower's proposal (1.02), but reduces the over-contribution under the existing rates (1.03).
- The Panel's R/RR ratio for streetlights is 1.09, which is closer to 1.0 than the existing ratio of 1.11. However, our recommendation is further from 1.0 than SaskPower's proposal (1.03).

In summary, the Panel is proposing rate rebalancing, based on a weighted average rate increase of 6%, that further reduces the amount of cross-subsidization between customer classes.

To ensure that the proposed rebalancing does not adversely affect any single customer, the Panel recommends a rate design cap that is based, proportionately, on what SaskPower proposed in its 2004 rate application. SaskPower's caps were set to ensure that no customer incurred a rate increase of more than 25% in 2004; a special cap of 11% for that year was identified for manufacturing customers.

The Panel recommends that since it is proposing a one-third reduction in SaskPower's weighted average rate increase (i.e. from 9% to 6%), the caps should also be scaled down by the same proportion. Therefore, we are recommending that in 2004, no customer's rate increase should exceed 17% (or two-thirds of 25%); for manufacturers, the cap is 7% (or two-thirds of 11%).

Conclusions and Recommendations on Rate Rebalancing and Redesign:

- *As noted in the previous section, the Panel is unable to support the rate increases that SaskPower has proposed for various customer classes. At the same time, it has determined that the application of a 6% across-the-board increase will perpetuate or exaggerate existing inequities between the cost of service and the revenue recovery with certain*

customer classes. Therefore, the Panel recommends the following class rate increases, for a weighted average of 6%:

<i>Urban residential</i>	<i>6.0%</i>
<i>Rural residential</i>	<i>8.0%</i>
<i>Farm</i>	<i>5.5%</i>
<i>Urban commercial</i>	<i>5.5%</i>
<i>Rural commercial</i>	<i>6.0%</i>
<i>Power rates</i>	<i>8.0%</i>
<i>Power contract</i>	<i>5.5%</i>
<i>Oilfields</i>	<i>5.5%</i>
<i>Street lights</i>	<i>Nil</i>
<i>Reseller</i>	<i>8.0%</i>

- The Panel recommends that the above-noted rate increases by customer class should be introduced as an interim measure. They should be effective on September 1, 2004 and should continue as an interim measure until there has been a thorough review of the cost of service methodology and its impact on the various customer classes.*
- To limit the impact of the interim rate rebalancing and redesign, the Panel recommends that the rate increases should be capped so that no individual customer incurs an increase of more than 17%, with special provisions to cap the increase on manufacturers at 7%, as of September 1, 2004. These caps are inclusive of basic monthly, energy, and demand charges.*

Other Issues

Municipal Surcharge

SaskPower has raised the municipal surcharge as an issue to justify its rate application with respect to its reseller customers (i.e. the City of Saskatoon and the City of Swift Current). The Panel is of the opinion the surcharge does not have any implications on the rate analysis, at least as it pertains to our mandate.

Our role is to determine the fairness and reasonableness of SaskPower's proposal, including the amount of any rate increase and the changes to the rate structure. The amount of revenue that flows to the resellers, directly or indirectly, as a result of the rate proposal has no bearing on the question of whether the rate proposal is fair and reasonable to all affected parties generally or to any specific customer. Therefore, the Panel has not incorporated in its analysis any consideration of the amount of additional money that flows to the resellers, or to any other municipality, as a result of the impact of higher rates on the municipal surcharge.

It should be noted that the Panel's recommendation to lower the weighted average rate increase from the current interim weighted average rate of 9% to no more than 6% will also represent corresponding scaling back of additional revenues anticipated by municipalities receiving the municipal surcharge. Currently, the surcharge is collected and paid to 13 cities and 411 towns. Under section 36 of *The Power Corporation Act*, municipalities can request that the surcharge be levied on total billings (excluding taxes) in the municipality up to a rate of 10% in the cities and 5% in towns.

Exclusion of Subsidiaries' Revenues and Expenditures in Determining Revenue Requirements

As part of the mandate, which was outlined in the July 29, 2004 Minister's Order, the Panel is required to accept the following parameter as "given":

"the exclusion from the rate proposal of all costs and revenues of SaskPower subsidiaries, thereby including only those costs directly involved in providing utility services to Saskatchewan ratepayers".

While the Panel has been directed by the Minister's Order to ignore the impact of the subsidiaries on SaskPower's financial position, this exclusion does raise an important question from the perspective of rate analysis.

According to the October 31, 2004, forecast of SaskPower's net income, SaskPower International and NorthPoint Energy Solutions are expected to add \$7.9 million to the Corporation's overall net income.³⁴ By excluding the net income of the Corporation's subsidiaries from the rate application process, Saskatchewan customers do not benefit from lower rates that would occur if the net income was included.

The issue of including or excluding the income of subsidiaries may be addressed by determining who is taking the risk for each subsidiary – the Saskatchewan customer or the Saskatchewan taxpayer. If the response is the former, then it would be appropriate to include the subsidiaries'

³⁴ SaskPower, *2004 Forecast to Year-end Financial Statements and Corresponding Schedules*, October 31, 2004, p.6.

net income in the calculations of electrical rates in Saskatchewan. Losses incurred by the subsidiaries would then result in higher rates for Saskatchewan customers.

If the response is that the Saskatchewan taxpayer is responsible for the risks of the subsidiaries, then net income would flow to the taxpayer through dividends from the Corporation. Similarly, subsidiary losses would result in a lower dividends or further taxpayer-funded investment.

Because these are givens, the Panel is not able to address these questions directly. However, if the subsidiaries' net income remains a given, future rate applications should include a commentary on the rationale for excluding these amounts from the determination of the rates charged to Saskatchewan customers.

On a related matter, our consultant has made reference to SaskPower's proposal to increase financing charges due to the construction of new production facilities.³⁵ We understand that these facilities will be owned by SaskPower's subsidiaries. We find this confusing, particularly because the Minister's Order has directed that the Panel not consider the operations of subsidiaries within its mandate.

Long-term Capital Planning

The Corporation's "budgeted capital allocation" has been identified as a given in the Minister's Order. The Panel has interpreted this restriction to its mandate to include consideration of all aspects of capital planning and financing. Nevertheless, we have some observations on the Corporation's capital requirements that arose from our review of the 2004 rate application.

SaskPower anticipates that future growth in the system "will require the corporation to increase investment to add generation assets and accelerate the pace of transmission and distribution replacement".³⁶ However, it also notes that SaskPower "may not need to add additional supply capacity until around 2009".³⁷

The August 2004 rate application provides the Panel with information on SaskPower's capital plan for 2004 and 2005. The expenditures for these years tend to focus on rebuilding and upgrading the existing infrastructure, new customer connections, and addressing federal standards.

It would be useful in future applications if the Panel received a longer-term perspective on the Corporation's capital expenditure requirements. For example, what are the cost, financing, and future rate implications of providing additional supply capacity in approximately 2009, as noted above? This would allow the Panel to place specific rate adjustment requests into a longer-term context and hence, evaluate the Corporation's responsiveness and flexibility to minimize future rate shock.

³⁵ Dillon Consulting Limited's report states that "financing charges would increase to reflect increased investment in new generation by \$13 M in 2004, \$13 M in 2005, and \$14 M in 2006, in accordance with the 2005 Business Plan." (Dillon Consulting Limited, *op. cit.*, p. iii.)

³⁶ SaskPower, *SaskPower Rate Proposal, August 2002*, p. 20.

³⁷ *Ibid.*, p. 12.

Fuel and Power Purchase Costs

The utility's rate application identifies fuel and purchased power expenses as "a major contributor to the financial pressure faced by the corporation".³⁸ According to a table on page 15 of SaskPower's August rate application, the cost of fuel and purchased power as a percentage of revenue has increased from 26% in 1999 to 42% in 2003. A significant increase in this ratio occurred in 2000, "when the price of natural gas began to rise significantly and the volume of natural gas increased as cogeneration (Meridian) was introduced into the generation mix".³⁹ Natural gas consumption has been further increased with the commissioning in 2003 of the Cory Cogenerating Station.

In 2003, SaskPower's power generation sources were as follows:

Coal-fired thermal generation	47.2%
Gas-fired thermal generation	15.4%
Hydro generation	24.3%
Cogeneration	12.8%
Wind	0.3%
Total	100.0%

Source: SaskPower, SaskPower Rate Proposal, August 2004, p. 6.

To understand how this configuration of power generation sources affect SaskPower's fuel and power purchase costs, the Panel considered two major factors – the price of fuel and how SaskPower allocates its power generation among the various sources.

With respect to fuel prices, the following commentary from SaskPower provides a useful perspective:

"In common with other Canadian utilities in other jurisdictions, SaskPower is also facing the prospect of increasingly stringent environmental regulations with regard to the operation of its thermal generating plants. In particular, coal facilities are relatively low cost in operational terms and use a fuel that is cheap, abundant, and relatively stable in terms of price. However, given global climate change and other air emission concerns, the future of coal-fired generation remains uncertain. While no immediate decision is likely, it seems probable that the costs of mitigation associated with coal-fired generation will increase in the future.

As a result of these concerns with coal-fired generation, combined with substantially lower capital costs, most new power facilities in North America are using natural gas as the fuel of choice, and SaskPower is not different. The challenge with natural gas is with its price volatility."⁴⁰

SaskPower has attempted to manage the risk of natural gas price volatility through hedging and through the seasonal purchase and storage of natural gas.⁴¹

³⁸ *Ibid.*, p. 4.

³⁹ *Ibid.*, p. 15.

⁴⁰ *Ibid.*, p. 7.

⁴¹ *Ibid.*, p. 18.

With respect to how SaskPower manages its fuel and purchased power costs through the mix of generating sources, the Corporation's August 2004 rate application offers the following explanation:

"SaskPower's supply of generation comes from many sources including hydro, coal, gas, co-generation, wind and imports. When one source of generation is unable to supply (for example, hydro generation unavailable due to low water flows in the river system), other potentially more costly sources of generation must make up the difference, as supply and demand must always be in balance. Gas-fired generation and purchased power form a much higher percentage of SaskPower's generation requirements than in the past, and will continue to do so in the near future. Since hydro and coal generation are fully utilized each year, new load must be supplied from sources with higher marginal costs' gas generation, purchased power (cogeneration), or imports. Even though gas-fired generation has higher operating costs than other sources of generation, SaskPower made prudent decisions by investing in such generation in recent years. At the time the investment decision were made, gas generation was the most economic option to satisfy domestic supply requirements."⁴²

In its report to the Panel, our consultant provides further elaboration on SaskPower's reliance on natural gas as a fuel source for the generation of electricity. The analysis suggests that SaskPower is significantly constrained in its flexibility to shift its generation to lower cost sources of power:

"SaskPower is extremely sensitive to natural gas pricing, as it is responsible for the purchase of natural gas to fuel the Meridian Co-Generation operation, the Cory Co-Generation operation, and the Queen Elizabeth and other gas turbine generation plants

Recent reversals in the natural gas forecast prices suggest SaskPower will be faced with some escalation of natural gas fuel supply costs. Recent forecasts suggest the impact may be in the order of 8 – 14% in 2004 and could have a significant impact in 2005 and on a going forward basis. This is because SaskPower does the following:

- Buys all of the Meridian plant generation (contractual).
- Buys most of the Cory plant generation (contractual and supply priority policy).
- Needs to operate some minimum level of gas plant (e.g., Queen Elizabeth) operation.

Consequently, the Corporation has limited flexibility in optimizing its hydraulic generation and its import/export capabilities."⁴³

The significance of the consultant's comments become clear in Tables 4.4 and 4.5 of its report. Due to contractual arrangements and the technical considerations, SaskPower is committed to acquiring certain amounts of its annual domestic load from higher cost sources. In 2003, SaskPower's average cost of fuel was 2.50¢/KWhr. Within this average cost, there were considerable differences in the cost for specific sources of fuel:

- SaskPower was required to purchase 1,233 GWhr at a cost of 7.0¢/KWhr from the Cory cogeneration plant and 1,681 GWhr at a cost of 5.9¢/KWhr from the Meridian cogeneration plant.
- SaskPower's other gas-fired and wind "must run" sources involved costs of 8.11¢/KWhr and 6.65¢/KWhr, respectively.

⁴² *Ibid.*, p. 16.

⁴³ Dillon Consulting Limited, *op. cit.*, p. 19.

- Coal and hydro sources, which are tapped after the “must run”, but which still supply significant proportions of SaskPower’s annual supply, have average costs of 1.44¢/KWhr and 0.28¢/KWhr, respectively.

SaskPower Dividend Policy

The Panel received several submissions that questioned, generally, the dividend policy that applies to SaskPower and, specifically, the implications of the 2003 dividend in relation to the Corporation’s revenue requirements in its 2004 rate proposal. At the outset, the Panel notes that dividends represent one-time financial events. On the other hand, rate setting involves finding multi-year flows of funds to cover operating costs and capital programs, plus yielding a return on investment for the Corporation’s shareholder.

Nevertheless, the point can be made that if SaskPower did not pay a dividend or if it paid a smaller dividend in 2003, the retained funds could be available to finance one-time capital expenditures. The internal use of these funds would reduce these expenditures’ pressures on the utility’s rate base.

However, in response to questions put forward by our consultant, SaskPower officials advised of the Corporation’s policy on foreign exchange gains and losses. Under this policy, the shareholder, and not the customer, has assumed the risk for foreign exchange losses. We were advised that over the past decade, SaskPower’s shareholder (i.e. Crown Investments Corporation) has covered the utility’s losses when the Canadian dollar declined from the mid-80 cent range to 62 cents at the end of 2002.

Therefore, if the shareholder is incurring the cost of foreign exchange losses, the Panel finds it reasonable for the shareholder to be entitled to SaskPower’s foreign exchange gains.

Conclusions and Recommendations

The Panel's mandate is to provide an opinion on the fairness and reasonableness of SaskPower's August 2004 rate proposal. In doing this, the Panel must consider the interests of the customer, SaskPower, and the public.

In this report, the Panel has made the following recommendations concerning this proposal:

Conclusions and Recommendations on SaskPower's Revenue Requirements

- *SaskPower's proposal for a September 1, 2004, weighted average rate increase of 9% is too high. This conclusion is based on two factors:*
 - a) *rate shock identified by many SaskPower customers; and*
 - b) *higher than anticipated net income for 2004 as identified through recent forecasts of the utility's revenues, expenditures, and net income.*
- *SaskPower's proposed weighted average rate increase, effective on September 1, 2004, should be reduced by at least three percentage points (i.e. 6% increase rather than 9%).*
- *In light of the volatility of fuel and purchased power costs, net of export revenues, the Panel has concluded that SaskPower should be directed to undertake further analysis of the utility's revenues, costs, and net income to determine the reasonableness of its rate proposal for 2005. In other words, the Panel is not prepared to recommend approval, at this time, of SaskPower's proposal for a weighted average rate increase of 1.8% effective on September 1, 2005. The Panel recommends that SaskPower should be directed to submit a separate and updated application for a further rate increase in 2005, if warranted.*

Conclusions and Recommendation on the Cost of Service Allocation Studies

- *To the extent that the cost of service methodology is a "given", the Panel is unable to express an opinion on the fairness and reasonableness of the rate rebalancing and redesign elements of the 2004 SaskPower rate proposal. It has taken this position because:*
 - a) *an evaluation of the cost of service methodology is beyond the Panel's mandate (i.e. it is to be treated as a given),*
 - b) *within its rate application document, SaskPower has not provide sufficient explanation and rationale for the implications of its rebalancing and redesign decisions;*
 - c) *insufficient time and information has been provided to conduct an audit of the application of the cost of service methodology; and*
 - d) *the Panel is concerned about compromising its principle of holding open and transparent reviews, if it is required undertake its evaluation with confidential information.*

- *That the Minister reconsider designating the cost of service methodology as a given within the rate review process and that a Minister's Order be issued for a separate review of the methodology (design and implementation), prior to the consideration of SaskPower's next rate application.*

Conclusions and Recommendations on Rate Rebalancing and Redesign:

- *As noted in the previous section, the Panel is unable to support the rate increases that SaskPower has proposed for various customer classes. At the same time, it has determined that the application of a 6% across-the-board increase will perpetuate or exaggerate existing inequities between the cost of service and the revenue recovery with certain customer classes. Therefore, the Panel recommends the following class rate increases, for a weighted average of 6%:*

<i>Urban residential</i>	<i>6.0%</i>
<i>Rural residential</i>	<i>8.0%</i>
<i>Farm</i>	<i>5.5%</i>
<i>Urban commercial</i>	<i>5.5%</i>
<i>Rural commercial</i>	<i>6.0%</i>
<i>Power rates</i>	<i>8.0%</i>
<i>Power contract</i>	<i>5.5%</i>
<i>Oilfields</i>	<i>5.5%</i>
<i>Street lights</i>	<i>Nil</i>
<i>Reseller</i>	<i>8.0%</i>

- *The Panel recommends that the above-noted rate increases by customer class should be introduced as an interim measure. They should be effective on September 1, 2004 and should continue as an interim measure until there has been a thorough review of the cost of service methodology and its impact on the various customer classes.*
- *To limit the impact of the interim rate rebalancing and redesign, the Panel recommends that the rate increases should be capped so that no individual customer incurs an increase of more than 17%, with special provisions to cap the increase on manufacturers at 7%, as of September 1, 2004. These caps are inclusive of basic monthly, energy, and demand charges.*

In framing these conclusions and recommendations, we have examined and tried to balance various interests:

Interests of the customer

The Panel recognizes that many sectors of Saskatchewan's economy are challenged at this time by a number of external or uncontrollable factors (e.g. the poor crop, B.S.E., the rising dollar and its effect on exports). We are also mindful of the social impact of rising power rates in smaller urban communities and in

rural Saskatchewan; an example is the continued viability of community facilities, such as ice rinks and other recreational and cultural centres. These issues are matters for the provincial government's consideration and are beyond the Panel's mandate and competence to affect. Because of their impact on our provincial economy, the Panel has concluded that increases to electricity rates should be kept to a minimum.

At the same time, we acknowledge that, as a consequence of rising fuel costs in particular, SaskPower requires a rate increase in 2004. By holding the weighted average increase to 6% in 2004, the Panel believes that we have taken into consideration the interests of both the utility and the customer, by recognizing the needs and challenges of each.

Interests of SaskPower

We believe that a 6% weighted average rate increase will allow SaskPower to achieve its financial and other business objectives. We recognize SaskPower may need to consider further increase in 2005, but this is subject to further justification by the Corporation.

Interests of the public

SaskPower's shareholders are the general public of Saskatchewan. Based on the facts provided to us by SaskPower and the advice we received from our technical consultant, we have concluded that our recommendations will accommodate a return on equity that is as robust as planned by the Corporation.

Appendix A:

**Minister's Order – July 29, 2004
Saskatchewan Rate Review Panel
SaskPower Electrical Rate Change**

MINISTER'S ORDER**Saskatchewan Rate Review Panel
SaskPower Electrical Rate Change**

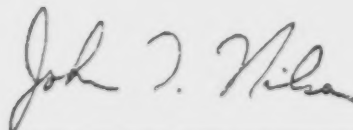
WHEREAS by a Minister's Order dated May 26, 2004, issued pursuant to Section 16 of *The Government Organization Act*, the Minister of Crown Management Board appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel;

AND WHEREAS that Minister's Order provides for specific terms of reference for particular Crown Corporation rate change reviews to be attached by further Minister's Order;

AND WHEREAS it is desirable to establish terms of reference for a SaskPower electrical rate change review and to attach the terms of reference to the previously mentioned Minister's Order;

NOW THEREFORE I hereby amend that said Minister's Order by attaching Appendix A affixed hereto as "**Schedule B: SaskPower Electrical Rate Changes Terms of Reference**" to the said Minister's Order.

Dated at Regina, Saskatchewan, this 29th day of July, 2004.



Minister of Crown Management Board

12/10/2004 08:39 FAX 300 101 0439

APPENDIX A

Schedule B
SaskPower Electrical Rate Changes Terms of Reference

Terms of Reference

The Saskatchewan Rate Review Panel is requested to conduct a review of SaskPower's request for an increase in rates effective September 1, 2004 and September 1, 2005.

Cabinet retains the sole prerogative to determine the composition and application of the lowest basic utility bundle. Cabinet may implement any rate change adjustment on an interim basis pending receipt of the Panel's recommendation(s).

The Panel shall function within its mandate and operational terms of reference as specified in the Minister's Order dated May 26, 2004. The Panel shall provide an opinion of the fairness and reasonableness of SaskPower's proposed rate changes, considering the interest of the customer, the Crown corporation and the public.

In conducting its review the Panel will consider the following factors:

- A) The reasonableness of the proposed changes to the rates in the context of SaskPower's forecasted delivery cost of service, comprised of SaskPower's:
 - i. anticipated costs for fuel (natural gas and coal);
 - ii. anticipated hydroelectric availability;
 - iii. load forecasts;
 - iv. planned maintenance program
 - v. operating, administrative and maintenance expenses;
 - vi. depreciation and finance expenses; and
 - vii. Corporate Capital Tax.
- B) The revenue requirement resulting from the delivery cost of service.
- C) The Panel shall consider the following parameters as given:
 - a. the current rate structure, i.e. components and classifications;
 - b. the budgeted capital allocation, the rate base and established corporate policies;
 - c. the Return on Equity target of 10%;
 - d. the non-capital spending levels as defined in 'A' above;
 - e. the existing service levels;
 - f. any existing supply contract;
 - g. the revenue to revenue requirement ratio target of 0.95 to 1.05;
 - h. the cost of service methodology which allocates SaskPower's costs between the various rate classes;

- i. the relationship of SaskPower's rates vis-a-vis other jurisdictions; and
- j. the exclusion from the rate proposal of all costs and revenues of SaskPower subsidiaries, thereby including only those costs directly involved in providing utility services to Saskatchewan ratepayers.

The Panel must include in its report an explanation of how, in its opinion, implementation of the panel's rate recommendations will allow SaskPower to achieve the performance inherent in the parameters outlined in (C) above, where the Panel's recommendations are different from SaskPower's proposed rate changes.

The Panel will not publicly release or require SaskPower to publicly release commercially sensitive material and or information including, but not limited to, its fuel purchasing strategies (including hedging activities) and contracts with specific customers.

The Panel will release as part of its final report the results of the review of SaskPower's rate application as conducted by an independent third party. By doing so, the Panel shall ensure there has been no indirect release of any SaskPower's commercially sensitive material and/or information.

Conduct of the Review

The Panel will present its report to the Minister of Crown Management Board no later than December 3, 2004.

Appendix B:

**Minister's Order – November 23, 2004
Saskatchewan Rate Review Panel
Amendment to SaskPower Electrical Rate Terms of
Reference**

MINISTER'S ORDER**Saskatchewan Rate Review Panel
Amendment to SaskPower Electrical Rate Terms of Reference**

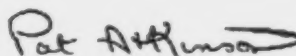
WHEREAS by a Minister's Order dated May 26, 2004, issued pursuant to Section 16 of *The Government Organization Act*, the Minister of Crown Management Board appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel;

AND WHEREAS said Minister's Order was amended on July 29, 2004 to include specific terms of reference for a SaskPower electrical rate change review and such terms of reference were attached to the said Minister's Order;

AND WHEREAS it is desirable to amend the said Minister's Order by extending the time in which the panel must present its report to the Minister as set out in the terms of reference for the SaskPower electrical rate change review;

NOW THEREFORE I hereby amend that said Minister's Order by extending the time in which the panel must present its report to the Minister as set out in "**Schedule B: SaskPower Electrical Rate Changes Terms of Reference**" to the said Minister's Order to December 17, 2004.

Dated at Regina, Saskatchewan, this 23 day of November, 2004.



Minister of Crown Management Board

APPENDIX A

Schedule B

SaskPower Electrical Rate Changes Terms of Reference

Terms of Reference

The Saskatchewan Rate Review Panel is requested to conduct a review of SaskPower's request for an increase in rates effective September 1, 2004 and September 1, 2005.

Cabinet retains the sole prerogative to determine the composition and application of the lowest basic utility bundle. Cabinet may implement any rate change adjustment on an interim basis pending receipt of the Panel's recommendation(s).

The Panel shall function within its mandate and operational terms of reference as specified in the Minister's Order dated May 26, 2004. The Panel shall provide an opinion of the fairness and reasonableness of SaskPower's proposed rate changes, considering the interest of the customer, the Crown corporation and the public.

In conducting its review the Panel will consider the following factors:

- A) The reasonableness of the proposed changes to the rates in the context of SaskPower's forecasted delivery cost of service, comprised of SaskPower's:
 - i. anticipated costs for fuel (natural gas and coal);
 - ii. anticipated hydroelectric availability;
 - iii. load forecasts;
 - iv. planned maintenance program
 - v. operating, administrative and maintenance expenses;
 - vi. depreciation and finance expenses; and
 - vii. Corporate Capital Tax.
- B) The revenue requirement resulting from the delivery cost of service.
- C) The Panel shall consider the following parameters as given:
 - a. the current rate structure, i.e. components and classifications;
 - b. the budgeted capital allocation, the rate base and established corporate policies;
 - c. the Return on Equity target of 10%;
 - d. the non-capital spending levels as defined in 'A' above;
 - e. the existing service levels;
 - f. any existing supply contract;
 - g. the revenue to revenue requirement ratio target of 0.95 to 1.05;
 - h. the cost of service methodology which allocates SaskPower's costs between the various rate classes;

- i. the relationship of SaskPower's rates vis-a-vis other jurisdictions; and
- j. the exclusion from the rate proposal of all costs and revenues of SaskPower subsidiaries, thereby including only those costs directly involved in providing utility services to Saskatchewan ratepayers.

The Panel must include in its report an explanation of how, in its opinion, implementation of the panel's rate recommendations will allow SaskPower to achieve the performance inherent in the parameters outlined in (C) above, where the Panel's recommendations are different from SaskPower's proposed rate changes.

The Panel will not publicly release or require SaskPower to publicly release commercially sensitive material and or information including, but not limited to, its fuel purchasing strategies (including hedging activities) and contracts with specific customers.

The Panel will release as part of its final report the results of the review of SaskPower's rate application as conducted by an independent third party. By doing so, the Panel shall ensure there has been no indirect release of any SaskPower's commercially sensitive material and/or information.

Conduct of the Review

The Panel will present its report to the Minister of Crown Management Board no later than December 3, 2004.

Appendix C:

**Dillon Consulting Limited,
Saskatchewan Rate Review Panel –
Independent Review of the SaskPower Rate Proposal of
August 2004**

December 2, 2004

**Saskatchewan Rate Review
Panel - Independent Review of
the SaskPower Rate Proposal
of August 2004**

FINAL REPORT

December 9, 2004

**Saskatchewan Rate Review Panel -
Independent Review of the SaskPower Rate
Proposal of August 2004**

04-3785-5000

John D. Ewing, P. Eng. - Project Manager

Submitted by
Dillon Consulting Limited

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(In reply, please refer to)
Our File: 04-3785-5000



December 9, 2004

Saskatchewan Rate Review Panel
901 - 1st Avenue North #19
Saskatoon, Saskatchewan S7K 1Y4

Attention: Mr. Boris Kischuk

Suite 200
895 Waverley St.
Winnipeg
Manitoba
Canada
R3T 5P4
Telephone
(204) 453-2301
Fax
(204) 452-4412

Independent Review of the SaskPower Rate Proposal of August 2004

Dear Mr. Kischuk:

We are pleased to submit our independent review of SaskPower's Rate Proposal of August 2004.

The Rate Review Panel in their deliberations should note that in the SaskPower Proposal its forecasted revenue and expenditure assumptions are predicted on past trends and economic forecasts. Between the time the proposal was prepared and filed, a number of economic circumstances have changed.

Based on these most recent trends and forecasts, the results of this review suggest the following:

1. More favourable net fuel and purchased power costs.
2. Somewhat more favourable results in other expenditure areas for 2004 such as depreciation and foreign exchange.
3. Natural gas prices have been substantially hedged for 2004 and with only modest growth in domestic energy consumption pose relatively lesser risks.

While one cannot forecast the financial results with definitive certainty, it is fair to suggest that there are a number of options available to SaskPower's management team to generate the financial results required to meet their rate of return target and yet pass on a reduced rate increase for their consumers in this application. Based on our review, a 2.0%-3.0% reduction from the requested 9.0% requested for September 1, 2004 should still allow SaskPower to meet its targets in 2005 and beyond.

Given SaskPower's plans to ask for a further increase of 1.8% next year, should the Review Panel recommend a lesser increase than that requested by SaskPower, and the suggested results do not materialize, future rate adjustments can then be taken to mitigate the negative or positive consequences.

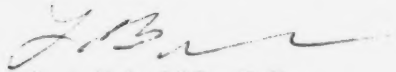
Dillon Consulting
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Saskatchewan Rate Review Panel
Page 2
December 9, 2004

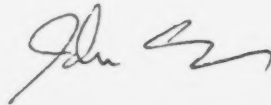
Should you have any questions, please call.

Yours sincerely,

DILLON CONSULTING LIMITED



L. A. Buhr, M.Sc., P. Eng.
Senior Consultant



John D. Ewing, M.Sc., P. Eng.
Partner

LAB/kse

Encl.

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EXECUTIVE SUMMARY

On July 29, 2004, the Saskatchewan Rate Review Panel (the Panel) received Terms of Reference from the Minister responsible for Saskatchewan's Crown Investment Corporation (SaskPower), to conduct a review of SaskPower's request for an increase in rates effective September 1, 2004 and September 1, 2005.

The Terms of Reference supplied by the Minister require the Panel to review SaskPower's Rate Proposal (the Proposal) in light of a number of factors and parameters. These are summarized below:

- The Panel shall provide an opinion of the fairness and reasonableness of SaskPower's proposed rate changes, considering the interests of the customer, SaskPower, and the public.
- In conducting its review, the Panel will consider the following factors:
 - The reasonableness of the proposed changes to the rates in the context of SaskPower's forecasted delivery cost of service, comprised of SaskPower's:
 - Anticipated costs for fuel (natural gas and coal).
 - Anticipated hydro-electric/hydraulic facilities availability.
 - Load forecasts.
 - Planned maintenance program.
 - Operating, administrative, and maintenance expenses.
 - Depreciation and finance expenses.
 - Corporate capital tax.
 - Overall proposal revenue requirements, resulting from the delivery cost of service.

As part of the Panel's mandate, the Panel was required to engage the services of a consultant to assist the Panel in its review of the Proposal. Dillon Consulting Limited (Dillon) was retained by the Panel in September of 2004.

Revenue Requirement

SaskPower is seeking a set of rate changes that will result in a 9.0% system average increase in 2004 and a 1.8% system average increase in 2005, with the exception of manufacturing customers, whose rate increase will be phased in over four years. The proposed rate increase will result in an additional revenue of \$33.9 M in 2004 and \$103 M in 2005; the additional rate increase in 2005 will result in further revenues of \$7.7 M in 2005.

The Proposal is designed to achieve a number of objectives:

- Increase revenue to offset net fuel and purchased power (F&PP) cost increases.
- Increase revenue to offset operating, maintenance, and administration (OM&A), depreciation, taxes, and finance charge cost increases.

- Get back to the return on investment target
- Largely complete rate rebalancing exercises started in 2001 to reduce cross-subsidization.
- Reduce the number of rate classes and improve the consistency and equity of rates.

SaskPower's budgetary documentation to support this increased revenue requirement is premised on:

- Continued (2.2%) overall load growth, which when supplied by natural gas generation, could increase costs by \$20 M in each year.
- Significantly lower hydro-electric generation (down 30% in 2003), which when offset by increased natural gas generation, could increase F&PP costs by up to \$17 M compared to 2003.
- Continuation of current coal unit costs and coal generation production levels, but with increased royalties; a modest increase of \$2 M.
- Continuation of current natural gas supply costs but with a possibility of lower prices in 2005 and 2006.
- Decline in export energy sales quantities and unit sale prices achieved (\$37 M less than 2003).
- Modest growth in OM&A costs; less than 3%.
- Depreciation charges in 2004 budget, up \$12 M from 2003.
- Increase in financing charges, up \$13 M in 2004, with similar changes in 2005 and 2006 due to continued high levels of investment in new generation facilities.
- Modest increase in income from SPI and North Point until at least 2007; less than 1%.

Dillon's review of the cost/revenue changes (August 31, 2004 update) suggests that SaskPower's financial health will be modestly better than in 1999 if the requested rate increases are approved. Consideration of the October 31, 2004 updated financial forecast, net F&PP in particular, suggests that in 2004, SaskPower will have \$30 M more in net revenue than originally forecasted in its rate proposal.

Dillon's analysis of individual cost components would suggest that SaskPower could experience:

- Higher or lower natural gas prices with cost impacts of ±\$20 M compared to August 31, 2004; a forecast of a \$10 to \$20 M cost increase is the more likely scenario.
- More hydro-electric generation than forecast, resulting in net F&PP reductions of \$20-\$25 M compared to the August 31, 2004 forecast. The October 31, 2004 budget update indicated a \$15-\$20 M reduction had already been achieved.
- No change in coal energy production or cost.
- Modest, if any, increase in export sales revenue.

- More low cost imports than originally forecasted in the Proposal, which could reduce gross F&PP costs by \$10-\$20 M. The October 31, 2004 budget update indicated that with 20% more imports, a \$15± M saving may have already been achieved.
- Depreciation costs that are lower than forecasted by \$7 M/year.
- Financing charges would increase to reflect increased investments in new generation by \$13 M in 2004; \$13 M in 2005; and \$14 M in 2006, in accordance with the 2005 Business Plan. If the foreign exchange adjustment, based on the October 31, 2004 Canadian dollar value of 0.83¢ U.S. were included, there would be about a \$13 M improvement in SaskPower's financial position.

The above possible changes in individual cost components are not directly additive as their potential impacts can overlap significantly. However, it is reasonable to suggest that in light of post-application developments, SaskPower's increase in revenue requirements could be \$25 to \$30 M lower for 2004. Overall, this could translate into a 2.0 to 3.0% reduction from the 9.0% requested rate increase.

Such a reduction would be primarily felt in 2005 and as such, would reduce the 2005 net incomes by the \$25-\$30 M. There might not be any significant further savings in 2005 because the most significant risk to SaskPower is natural gas pricing. As such, the 1.8% rate increase for September 1, 2005 should remain conditional, possibly subject to adjustment based on mid-year 2005 financial results.

It is likely that with the changing domestic load make-up, annual rate increases of 1 to 2%, not including inflation, may be required in 2006 and onward.

Cost of Service Issues

A somewhat limited review of the results of SaskPower's cost of service model reveals the following:

- The most recent application of the cost of service methodology directs some additional costs toward the power/reseller customer classes and away from residential/farm/certain commercial sub-classes.
- The application of the model is relatively sensitive to the (net) fuel and purchased power levels, resulting in a revenue-to-revenue requirement that can change dramatically on a year-to-year basis.
- The application of the model is somewhat favourably biased toward classes with R/RR ratios below one (residential and farm) and consequently tends to perpetuate historical inequities in the rate rebalancing exercise.
- The trend to increased (net) fuel and power purchase costs going forward, may continue to reduce R/RR ratios for those classes with little or no distribution in this rate base (power & reseller) and consequently somewhat understate the revenue requirement to fund the distribution component for residential/farm/commercial/oilfields classes.
- The application of the model appears to support a policy of subsidizing residential/farm/certain commercial sub-classes at the expense of the remaining classes.

- The application of the model suggests cost allocations should be heavily weighted toward the non-variable demand and customer components. This is significantly different from the revenue collections (billings) which are strongly weighted toward energy.

Rate Design Issues

SaskPower's program of rate rebalancing since 2001 has seen a shift towards an increased share of total revenue coming from the former manufacturing classes (now power) and bulk (now reseller) classes. In general, this shift should be viewed as positive because some historical billing practices fell well short of equitable cost recovery.

Based in part on R/RR results, the SaskPower 2004 Rate Application looks to directionally improve cost recoveries for each class while maintaining some of the historical advantages for residential/farm/rural commercial classes. The proposed rate changes for September 1, 2004 were intended to achieve a 9% overall revenue increase by assigning the following weighting (on the 9%) to each of the classes:

- Urban residential: 97%
- Rural residential: 133%*
- Farms: 77%**
- Urban commercial: 88%
- Rural commercial: 111%
- Power rates: 147%*
- Power contract: 83%
- Oilfields: 111%
- Resellers: 155%*
- Street lights: 0%

* more than 20% above average

** more than 20% below average

Dillon's perception is that, in light of the cost of service concerns discussed earlier, the allocation process employed by SaskPower may produce extreme results for some individual customers. As in the past, it may be appropriate to limit the severity of the adjustments to a range of plus or minus 20% or 25% of the average increase for this application and should rates change late in 2005, a further cap of 10% be used as suggested by SaskPower.

It should be noted that the foregoing relates to class averages and does not address individual customer impacts. Perhaps to minimize rate shock, there should be a maximum individual customer rate increase set as a percentage (e.g., 50%/100%/150%) above approved class average increases.

1. INTRODUCTION AND TERMS OF REFERENCE

On July 29, 2004, the Saskatchewan Rate Review Panel (the Panel) received Terms of Reference from the Minister responsible for Saskatchewan's Crown Investment Corporation (SaskPower), to conduct a review of SaskPower's request for an increase in rates effective September 1, 2004 and September 1, 2005.

The Terms of Reference supplied by the Minister require the Panel to review SaskPower's Rate Proposal (the Proposal) in light of a number of factors and parameters. These are summarized/paraphrased below.

- The Panel shall provide an opinion of the fairness and reasonableness of SaskPower's proposed rate changes, considering the interests of the customer, SaskPower, and the public.
- As part of the Panel's mandate, the Panel was required to engage the services of a consultant to assist the Panel in its review of the SaskPower Rate Proposal. Dillon Consulting Limited (Dillon) was retained by the Panel in September of 2004.
- In conducting its review, the Panel will consider the following factors:
 - The reasonableness of the proposed changes to the rates in the context of SaskPower's forecasted delivery cost of service, comprised of SaskPower's:
 - Anticipated costs for fuel (natural gas and coal).
 - Anticipated hydro-electric/hydraulic (hydro) facilities availability.
 - Load forecasts.
 - Planned maintenance program.
 - Operating, administrative, and maintenance expenses.
 - Depreciation and finance expenses.
 - Corporate Capital Tax.
 - Overall Revenue Requirements resulting from the delivery cost of service.
- The Panel shall consider the following parameters, but largely consider them as given:
 - Rate of return on equity target of 10%.
 - Existing supply contracts.
 - Finance expenses (in particular, debt charges and foreign exchange gains or losses).
 - Current rate structures and classifications
 - Cost Allocation Methodology.
 - Revenue to Revenue Requirement target range of 0.95 to 1.05.
 - Existing Service Levels.
 - Rate Levels between classes.

- Demand, customer and energy charges.
- Capital budgets/rate basis/corporate policies.
- Exclusion of all subsidiary cost/revenues not directly involved in service to Saskatchewan.
Rate payers.
- Relative rates in other jurisdictions.

The objective of this report is to review the SaskPower Rate Proposal (the Proposal) considering the interests of the customer, SaskPower, and the general public, and ascertain the overall fairness and reasonableness of the proposed rate change. To accomplish this objective, Dillon met with officials from SaskPower and the Panel to discuss details of the Proposal and subsequently requested and reviewed supporting documentation.

This report examines the Proposal from a number of functional perspectives, as outlined below:

- Annual Revenue Requirements
- Load Forecasts
- System Operational Analysis
- System Operational Costs
- Capital and Maintenance Programs (not including subsidiary companies)
- Revenue/Revenue Requirement Ratio
- Rate Structures/Rate Increases

The methodology used to complete this review involved the following:

- A comprehensive review of the Proposal by Dillon.
- The derivation of questions for SaskPower as a result of Dillon's review of documentation.
- Meeting with SaskPower officials on September 20 and 21, 2004 to discuss questions posed by Dillon and review additional documentation.
- Follow-up conference calls and correspondence with SaskPower officials on additional questions.
- Meeting with SaskPower officials on November 8, 2004 to discuss the draft report and ask additional questions or request clarification of issues.
- Submission of a preliminary draft report to the Panel on November 12, 2004, followed by a meeting with the Panel on November 24, 2004 to discuss the draft report.
- Submission of the final report in December 2004.

Through the course of this review, numerous documents were provided by SaskPower to Dillon in support of the Proposal and in response to questions from Dillon. A list of documents reviewed for this report is provided in Appendix E.

Dillon would like to acknowledge and thank SaskPower for their cooperation in responding to questions and for providing supporting documentation for this review.

The scope of this review was largely directed at determining the overall fairness and reasonableness of SaskPower's proposed rate change. While alternative actions may be recommended and discussed, it was not within the scope of this review to conduct a comprehensive study of SaskPower's operations for the purpose of making specific recommendations. Rather, SaskPower's operations and costs were reviewed to ascertain the fairness and reasonableness of SaskPower's proposed rate change.

2. THE SASKPOWER RATE PROPOSAL

SaskPower is seeking a set of rate changes that, effective September 1, 2004, will result in a 9.0% system average increase and a 1.8% system average increase on September 1, 2005, with the exception of manufacturing customers, whose rate increase will be phased in over four years. The proposed rate increase will result in additional revenues of \$33.9 M in 2004 and \$103.0 M in 2005; the additional rate increase in 2005 may result in further revenues of \$7.7 M in 2005. The proposed increases by rate class are outlined in Table 2.1 below.

Table 2.1: Proposed Rate Class Increases

Customer Class	Revenue Increase**	
	Sept. 1, 2004	Sept. 1, 2005
Urban Residential Customers	8.7%	1.7%
Rural Residential Customers	13.0%	2.0%
Farm Customers	7.0%	1.0%
Urban Commercial Customers	8.0%	2.0%
Rural Commercial Customers	10.0%	2.0%
Power Rate Customers	13.2%	3.3%
Power Rate Contract Customers	7.5%	1.7%
Oilfield Customers	10.0%	2.0%
Streetlight Customers	0.0%	1.0%
Reseller Customers	14.0%	2.0%

* Weighted averages derived from total class costs

** The impact on the bills of individual customers will vary from the percentages shown above, depending on consumption and modification to the basic monthly charge, the energy charge, and the demand charge.

SaskPower indicated that the Proposal is designed to accomplish three objectives:

- Increase revenues to offset increases in net fuel and purchased power expenses. These costs are expected to increase \$49 M between 2003 and 2005 (see Table 3.2).
- Complete the rate rebalancing that was started in 2001 to ensure more equity between various rate classes and reduce cross-subsidization.
- Improve the rate design itself for each rate class to improve consistency and equity.

SaskPower, as of the rate proposal (forecasted as at May 2004) is forecasting a net income of \$48 M in 2004 and \$145 M in 2005. Without the rate action included in this proposal, SaskPower's net income for 2004 and 2005 is forecasted (May 2004) to be \$14 M and \$34 M respectively. Without appropriate net

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income, SaskPower would not be able to provide adequate dividends to the shareholders or fund ongoing investments in infrastructure for aging equipment and facilities, without incurring additional debt.

2.1. Increased Revenues and Costs

Revenues at SaskPower have increased from \$977 M in 1999 to an estimated \$1,220 M in 2003. The increase in revenue of approximately \$243 M falls short of offsetting the increase in fuel and power purchased costs of \$256 M over the same period.

With a substantial portion of SaskPower's generating capability relying on natural gas, and the recent volatility in gas prices, fuel and purchased power costs have increased from \$251 M in 1999 to \$507 M in 2003. Fuel and purchased power costs are expected to be \$468 M in 2004 and in 2005.

Table 2.2 summarizes SaskPower's income and expenses for 2003 forward.

Table 2.2: SaskPower Revenue and Expenses

	2003 Actual	2004 Budget*	2005 Budget**	2005***	2006 ***
Revenue					
SaskPower Customers	\$1,104 M	\$1,170 M	\$1,260 M	\$1,234 M	\$1,312 M
Export Revenues	\$92 M	\$55 M	\$22 M	\$75 M	\$65 M
Ancillary Revenues	\$24 M	\$23 M	\$24 M	\$26 M	\$32 M
Total Revenue	\$1,220 M	\$1,248 M	\$1,306 M	\$1,335 M	\$1,409 M
Expenses					
Fuel and Purchased Power	\$507 M	\$468 M	\$468 M	\$482 M	\$487 M
Operating, Maintenance, and Administration	\$292 M	\$299 M	\$310 M	\$323 M	\$333 M
Depreciation and Amortization	\$182 M	\$194 M	\$204 M	\$193 M	\$216 M
Taxes	\$28 M	\$27 M	\$29 M	\$30 M	\$32 M
Future Asset Removal and Site Restoration					
Finance Charges	\$32 M ⁽¹⁾	\$146 M	\$150 M	\$179 M	\$193 M
Total Expenses	\$1,041 M	\$1,134 M	\$1,161 M	\$1,207 M	\$1,261 M
Net Income	\$179 M	\$114 M	\$145 M	\$128 M	\$148 M

(1) 2003 finance charges include a foreign exchange gain of \$113 M

* As at February 2, 2004, including 9% September 1, 2004 revenue increase

** As at May 31, 2004 and 1.8% September 2005 revenue increase

*** From 2005 Business Plan (Consolidated Statement)

With the proposed rate increase, SaskPower's net income in 2004 is expected to be \$48 M in 2004 and \$145 M in 2005. Without the rate increase, net income is forecasted to be \$14 M in 2004 and \$34 M in 2005. The return on equity for 2005 is expected to be 10%, with the approved rate increase.

2.2. Rate Rebalancing

The second objective of SaskPower's Proposal is to complete the rate rebalancing started in 2001 that would establish more equity between the various rate classes and reduce cross-subsidization. SaskPower is seeking rate rebalancing to ensure that rates better reflect the cost of providing electrical services. The standard that exists throughout the industry holds that revenues for a given class of customer should fall within a range ratio of 0.95 to 1.05 to the cost of serving that class of customer, with 1.00 representing revenues exactly matching costs. SaskPower's current rate structure falls short of this standard and needs to be adjusted accordingly to meet its current and future challenges. SaskPower is seeking to establish rates that meet competitive standards for the revenue-to-revenue requirement ratio. SaskPower's objective is to have a revenue-to-revenue requirement ratio of 0.95 to 1.05. It is generally accepted in the industry that achieving a complete range of rates that are all at the ideal ratio is not practically feasible, given all the dynamic variables. Consequently, the target range has been accepted. Table 2.3 illustrates the current status of SaskPower's rate structure showing the cross-subsidization and the impact of the proposed rates.

Table 2.3: Revenue-to-Revenue Requirement Ratios

Class of Service	Year 2004 Revenue/Rev. Req. Ratio (existing rates)	Rate Increase and Rebalancing Effective Sept. 1, 2004 (%)	Year 2004 Revenue/Rev. Req. Ratio (proposed rates)	Rate Increase and Rebalancing Effective Sept. 1, 2005 (%)	Year 2005 Revenue/Rev. Req. Ratio (proposed rates)
Urban Residential	0.98	8.7	0.98	1.7	0.97
Rural Residential	0.95	13.0	0.97	2.0	0.97
Total Residential	0.97	9.5	0.97	1.8	0.97
Farms	1.02	7.0	0.99	1.0	0.99
Urban Commercial	1.03	8.0	1.02	2.0	1.02
Rural Commercial	1.02	10.0	1.02	2.0	1.02
Total Commercial	1.03	8.5	1.02	2.0	1.02
Power (published rates)	0.95	13.2	1.00	3.3	1.01
Power (contract rates)	1.00	7.5	1.00	1.7	1.00
Total Power	0.99	8.5	1.00	2.0	1.00
Oilfields	1.02	10.0	1.02	2.0	1.03
Streetlights	1.11	0.0	1.03	1.0	1.02
Reseller	0.95	14.0	1.00	2.0	1.00
Total System	1.00	9.0	1.00	1.8	1.00

Note:

A ratio of greater than 1.00 implies that the customer class is paying too much relative to the cost of supplying electricity. A ratio below 1.00 implies that the class is being subsidized.

There are three key factors that are driving SaskPower's rate design principles. The first is the basic issue of fairness in that all customers should pay their fair share of the costs of service and no more. Fundamentally, customers should not pay for costs attributable to other customers. The second key factor is that properly balanced rates reduce the incentive for uneconomic alternatives for those customers who are providing the subsidy. The final factor is the desire to secure the contribution to fixed

income, SaskPower would not be able to provide adequate dividends to the shareholders or fund ongoing investments in infrastructure for aging equipment and facilities, without incurring additional debt.

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Taxes	\$28 M	\$27 M	\$29 M	\$30 M	\$32 M
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With the proposed rate increase, SaskPower's net income in 2004 is expected to be \$48 M in 2004 and \$145 M in 2005. Without the rate increase, net income is forecasted to be \$14 M in 2004 and \$34 M in 2005. The return on equity for 2005 is expected to be 10%, with the approved rate increase.

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Urban Residential	0.98	8.7	0.98	1.7	0.97
Rural Residential	0.95	13.0	0.97	2.0	0.97
Total Residential	0.97	9.5	0.97	1.8	0.97
Farms	1.02	7.0	0.99	1.0	0.99
Urban Commercial	1.03	8.0	1.02	2.0	1.02
Rural Commercial	1.02	10.0	1.02	2.0	1.02
Total Commercial	1.03	8.5	1.02	2.0	1.02
Power (published rates)	0.95	13.2	1.00	3.3	1.01
Power (contract rates)	1.00	7.5	1.00	1.7	1.00
Total Power	0.99	8.5	1.00	2.0	1.00
Oilfields	1.02	10.0	1.02	2.0	1.03
Streetlights	1.11	0.0	1.03	1.0	1.02
Reseller	0.95	14.0	1.00	2.0	1.00
Total System	1.00	9.0	1.00	1.8	1.00

Note:

A ratio of greater than 1.00 implies that the customer class is paying too much relative to the cost of supplying electricity. A ratio below 1.00 implies that the class is being subsidized.

There are three key factors that are driving SaskPower's rate design principles. The first is the basic issue of fairness in that all customers should pay their fair share of the costs of service and no more. Fundamentally, customers should not pay for costs attributable to other customers. The second key factor is that properly balanced rates reduce the incentive for uneconomic alternatives for those customers who are providing the subsidy. The final factor is the desire to secure the contribution to fixed

costs from those customer classes at risk of leaving the SaskPower system, thus containing rate increases across the system. Should such customers abandon SaskPower for self-generation alternatives, there would inevitably be additional upward rate pressure on the remaining customer base to cover those fixed costs that do not vary with demand.

Dillon has reviewed, to a limited extent, the costing methodology adopted by SaskPower. In general, SaskPower has implemented the recommendations of the Foster Report "Review of Costing Methodologies" (Foster, 1998 and 2002), which examined costing methodologies used by SaskPower. With the absence of a more detailed calculation for the Cost-of-Service-Study for the current year and rate allocation process, the study team was unable to specifically address the current cost allocation and rate design parameters that would impact individual customers.

2.3. Rate Class Adjustments

As with the rate re-balancing proposal, SaskPower also wishes to address the cross-subsidization issue within the rate classes themselves. As a result, not all customers within a rate class will necessarily see the same increase. Some may actually see a rate decrease, while others may see up to a 25% increase within a rate class in 2004, and no more than a 10% increase in September, 2005. The actual increase is dependent on energy consumed, the basic charge, and the demand rate.

To generate additional revenues, SaskPower is recommending revenues from each customer class be increased as highlighted in Table 2.1.

3. FINANCIAL OUTLOOK AND COMPARISONS

3.1. Financial Outlook 2004 and 2005

Revenues for SaskPower have increased from \$977 M in 1999 to \$1243 M in 2003 (2003 Annual Report). This increase of \$266 M falls significantly short of covering the actual and forecasted increased expenses of \$328M (from \$842 M to \$1170 M) during that same period. This could support a fairly large domestic rate increase; however, a rate change was implemented January 1, 2002, which provided an increase in revenue of \$47 M.

Table 3.1 summarizes SaskPower's Revenue and Expenses forecasts for 2004 and 2005.

Table 3.1: SaskPower's Revenue and Expenses Forecasts for 2004 and 2005

	2003 In Application	2003 Annual Report	2004 ¹ May 31/04 Forecast	2004 ¹ Aug 31/04 update	2004 ¹ Oct 31/04 Forecast	2005 ² Budget	2006 ³
Revenue							
• SaskPower Customer	\$1104 M	\$1104 M	\$1149 M	\$1144 M	\$1141 M	\$1260 M	\$1312 M
• Export Revenue	\$92 M	\$113 M	\$76 M	\$98 M	\$101 M	\$22 M	\$65 M
• Ancillary	\$24 M	\$26 M	\$23 M	\$26 M	\$27 M	\$24 M	\$32 M
Total Revenue	\$1220 M	\$1243 M	\$1248 M	\$1268 M	\$1269 M	\$1306 M	\$1409 M
Expenses							
• Fuel and Purchased Power	\$507 M	\$502 M	\$523 M	\$504 M	\$496 M	\$468 M	\$487 M
• Operating/Maintenance/Admin.	\$292 M	\$301 M	\$304 M	\$315 M	\$316 M	\$310 M	\$333 M
• Depreciation/Amortization	\$182 M	\$186 M	\$184 M	\$191 M	\$190 M	\$204 M	\$216 M
• Finance Charges	\$140 M	\$152 M	\$154 M	\$165 M	\$161 M	\$150 M	\$193 M
• Taxes	\$28 M	\$29 M	\$27 M	\$28 M	\$25 M	\$29 M	\$32 M
Total Expenses	\$1149 M	\$1170 M	\$1192 M	\$1203 M	\$1188 M	\$1161 M	\$1261 M
Net Income (before Foreign Exchange)	\$71 M	\$73 M	\$56 M	\$65 M	\$81 M	\$145 M	\$147 M
Foreign Exchange Adjustments	\$113 M	\$113 M	\$(8 M)	\$(7 M)	\$2 M	0	0
Net Income (after Foreign Exchange)	\$184 M	\$186 M	\$48 M	\$58 M	\$83 M	\$145 M	\$147 M

¹After September 1, 2004 Rate Increases/Basis of Application

²After September 1, 2005 Rate Increases.

³From SaskPower 2005 Business Plan (Consolidated Statement)

Without the rate increases proposed, SaskPower's net income was forecast to be \$14 M in 2004 and \$34 M in 2005.

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Foreign Exchange Adjustments	\$113 M	\$113 M	\$18 M	\$17 M	\$2 M	0	0
Net Income (after Foreign Exchange)	\$184 M	\$186 M	\$74 M	\$82 M	\$83 M	\$145 M	\$147 M

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³From SaskPower 2005 Business Plan (Consolidated Statement)

Without the rate increases proposed, SaskPower's net income was forecast to be \$14 M in 2004 and \$34 M in 2005.

3.2. Detailed Comparison (1999-2005)

Cost increases since 1999 have been largely in the areas of fuel and purchased power (net of export revenues). Table 3.2 summarizes the 1999-2005 cost and revenue comparisons.

Table 3.2: Comparison of 1999-2005 Costs and Revenue (as of August 31, 2004)

Increases in Cost/Revenues	1999-2003 Period	Aug. 31/04 2004 Forecast (relative to 2005 in Application)	May 31/04 2005 Budget (relative to August 31, 2004 Forecast)	2006 Forecast in 2005 Business Plan (relative to 2005 Budget)
Fuel and Purchased Power (Net of Export Revenue)	\$180 M	(\$9 M)	\$40 M	(\$24 M)
Operations, Maintenance, Administration	\$20 M	\$23 M	\$(5 M)	\$23 M
Depreciation	\$47 M	\$9 M	\$13 M	\$12 M
Finance Charges	\$5 M	\$25 M	\$(15 M)	\$43 M
Taxes	\$5 M	--	\$1 M	\$3 M
Total Expenses (Net of Export Revenue)	\$257 M	\$48 M	\$34 M	\$57 M
Revenue Increases (excluding Export)	\$195 M	\$42 M	\$114 M	\$60 M
Revenue Surplus (Shortfall)	(\$62 M)	(\$6 M)	\$80 M	\$3 M
Accumulated Impact	\$62 M)	(\$68 M)	\$12 M	\$15 M
The above does not include the largely favourable foreign exchange adjustment shown below.				
Foreign Exchange Adjustments	\$61 M	\$(7 M)	0	0

When the foreign exchange adjustments are excluded, the foregoing would suggest that SaskPower would be \$10-15 M better off in 2005 and 2006 (with the proposed rate increase) than in 1999 (where the corporation had a 16% on return on equity on a net income of \$187 M).

If the foreign exchange adjustments are included, the analysis shows SaskPower would be ahead by about \$65 M/year in 2005 and 2006. However, there is considerable difference of opinion on whether or not the foreign exchange adjustment should be included, given that there was a one-time book transaction in 2003, which included foreign exchange gains/losses from previous years. However, there was a dividend payout to Saskatchewan Government based on this adjustment and if there is a reversal of this adjustment in the future, SaskPower would likely require an offsetting rate increase. Its inclusion is consistent with generally accepted accounting principles.

Table 3.3: Updated (October 31, 2004) Comparison

Increases in Cost/Revenues	1999-2003 Period	Oct. 31/2004 Forecast (relative to 2003 in Application)	May 31/04 2005 Budget (relative to Oct. 31/2003 Forecast)	2006 Forecast in 2005 Business Plan (relative to 2005 Budget)
Fuel and Purchased Power (Net of Export Revenue)	\$180 M	(\$20 M)	\$51 M	(\$24 M)
Operations, Maintenance, Administration	\$20 M	\$24 M	\$(6 M)	\$23 M
Depreciation	\$47 M	\$8 M	\$14 M	\$12 M
Finance Charges	\$5 M	\$21 M	(\$11 M)	\$43 M
Taxes	\$5 M	(\$3 M)	\$4 M	\$3 M
Total Expenses (Net of Export Revenue)	\$257 M	\$30 M	\$52 M	\$57 M
Revenue Increases (Excluding Export)	\$195 M	\$40 M	\$116 M	\$60 M
Revenue Surplus (Shortfall)	(\$62 M)	\$10 M	\$64 M	\$3 M
Accumulated Impact	(\$62 M)	(\$52 M)	\$12 M	\$15 M
The foregoing does not include the largely favourable foreign exchange adjustments shown below.				
Foreign Exchange Adjustments Gain (Loss)	\$61 M	\$(8 M)	0	0

The October 31, 2004 update indicates a \$16 M improvement in SaskPower's financial position, relative to August 31, 2004, when excluding the foreign exchange adjustment. Including the foreign exchange adjustment in 2004, could see a further improvement of \$4.5 M to \$9 M.

3.3. Return on Equity

With the proposed rate increases for 2004 and 2005, SaskPower's return on equity (ROE) would be about 4% and 10% respectively. The most recent forecast suggests that the ROE for 2005 will be 9%. Without the proposed rate increases, the return would be about 1.7% and 2.5%. These returns compare to:

1999 – 16%

2000 – 9%

2001 – 3%

2002 – 10%

2003 – 13% (includes \$113 M foreign exchange adjustment)

Average - 10% (This has been SaskPower's target since 2000.)

3.2. Detailed Comparison (1999-2005)

Cost increases since 1999 have been largely in the areas of fuel and purchased power (net of export revenues). Table 3.2 summarizes the 1999-2005 cost and revenue comparisons.

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Depreciation	\$47 M	\$9 M	\$13 M	\$12 M
Finance Charges	\$5 M	\$25 M	(\$15 M)	\$43 M
Taxes	\$5 M	—	\$1 M	\$3 M
Total Expenses (Net of Export Revenue)	\$257 M	\$48 M	\$34 M	\$57 M
Revenue Increases (excluding Export)	\$195 M	\$42 M	\$114 M	\$60 M
Revenue Surplus (Shortfall)	(\$62 M)	(\$6 M)	\$80 M	\$3 M
Accumulated Impact	\$62 M)	(\$68 M)	\$12 M	\$15 M
The above does not include the largely favourable foreign exchange adjustment shown below				
Foreign Exchange Adjustments	\$61 M	(\$7 M)	0	0

When the foreign exchange adjustments are excluded, the foregoing would suggest that SaskPower would be \$10-15 M better off in 2005 and 2006 (with the proposed rate increase) than in 1999 (where the corporation had a 16% on return on equity on a net income of \$187 M).

If the foreign exchange adjustments are included, the analysis shows SaskPower would be ahead by about \$65 M year in 2005 and 2006. However, there is considerable difference of opinion on whether or not the foreign exchange adjustment should be included, given that there was a one-time book transaction in 2003, which included foreign exchange gains/losses from previous years. However, there was a dividend payout to Saskatchewan Government based on this adjustment and if there is a reversal of this adjustment in the future, SaskPower would likely require an offsetting rate increase. Its inclusion is consistent with generally accepted accounting principles.

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Fuel and Purchased Power (Net of Export Revenue)	\$180 M	(\$20 M)	\$51 M	(\$24 M)
Operations, Maintenance, Administration	\$20 M	\$24 M	\$36 M	\$23 M
Depreciation	\$47 M	\$8 M	\$14 M	\$12 M
Finance Charges	\$5 M	\$21 M	(\$11 M)	\$43 M
Taxes	\$5 M	(\$3 M)	\$4 M	\$3 M
Total Expenses (Net of Export Revenue)	\$257 M	\$30 M	\$52 M	\$57 M
Revenue Increases (Excluding Export)	\$195 M	\$40 M	\$116 M	\$60 M
Revenue Surplus (Shortfall)	(\$62 M)	\$10 M	\$64 M	\$3 M
Accumulated Impact	(\$62 M)	(\$52 M)	\$12 M	\$15 M
The foregoing does not include the largely favourable foreign exchange adjustments shown below.				
Foreign Exchange Adjustments Gain (Loss)	\$61 M	\$18 M	0	0

The October 31, 2004 update indicates a \$16 M improvement in SaskPower's financial position, relative to August 31, 2004, when excluding the foreign exchange adjustment. Including the foreign exchange adjustment in 2004, could see a further improvement of \$4.5 M to \$9 M.

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1999 - 16%

2000 - 9%

2001 - 3%

2002 - 10%

2003 - 13% (includes \$113 M foreign exchange adjustment)

Average = 10% (This has been SaskPower's target since 2000.)

4. SYSTEM OPERATIONAL ANALYSIS

4.1. System Description

SaskPower is the principal supplier of electricity in Saskatchewan. Founded as the Saskatchewan Power Commission in 1929, its mandate is to deliver safe, reliable, cost-effective power to the residents of Saskatchewan. SaskPower is governed by the Province's Power Corporation Act.

The system currently consists of:

- Three coal-fired thermal plants. (1658 MW/11,500 GWhr capability/year)
- Seven hydro-electric/hydraulic (hydro) systems. (853 MW/2400 to 4400 GWhr capability/year)
- Four natural gas combustion stations. (539 MW/900-9500 GWhr capability/year)
- One wind generating facility. (11 MW/40 GWhr, in 2003)
- More than 150,000 km of electrical transmission and distribution power lines.

Additionally, SaskPower purchases electricity from:

- The Meridian co-generation plant at Lloydminster (210-228 MW/1500-1600 GWhr/year) and the Cory co-generation facility (228-263 MW/1400 GWhr/year) near Saskatoon (50% owned by SaskPower International).
- The Sunbridge wind generating facility
- Alberta, U.S. Basin, and Manitoba electrical utilities.

Figure 1 shows the location of the above generating facilities and SaskPower's major transmission lines and interconnects.

Table 4.5, Section 4.3.2 identifies the current capacities (MW) and maximum/median energy capabilities (GWhr) based on historical and projected performance of the various coal, gas, hydro, co-generation, wind, and import power sources.

Figure 1:

SASKPOWER GENERATION AND HIGH VOLTAGE TRANSMISSION MAP

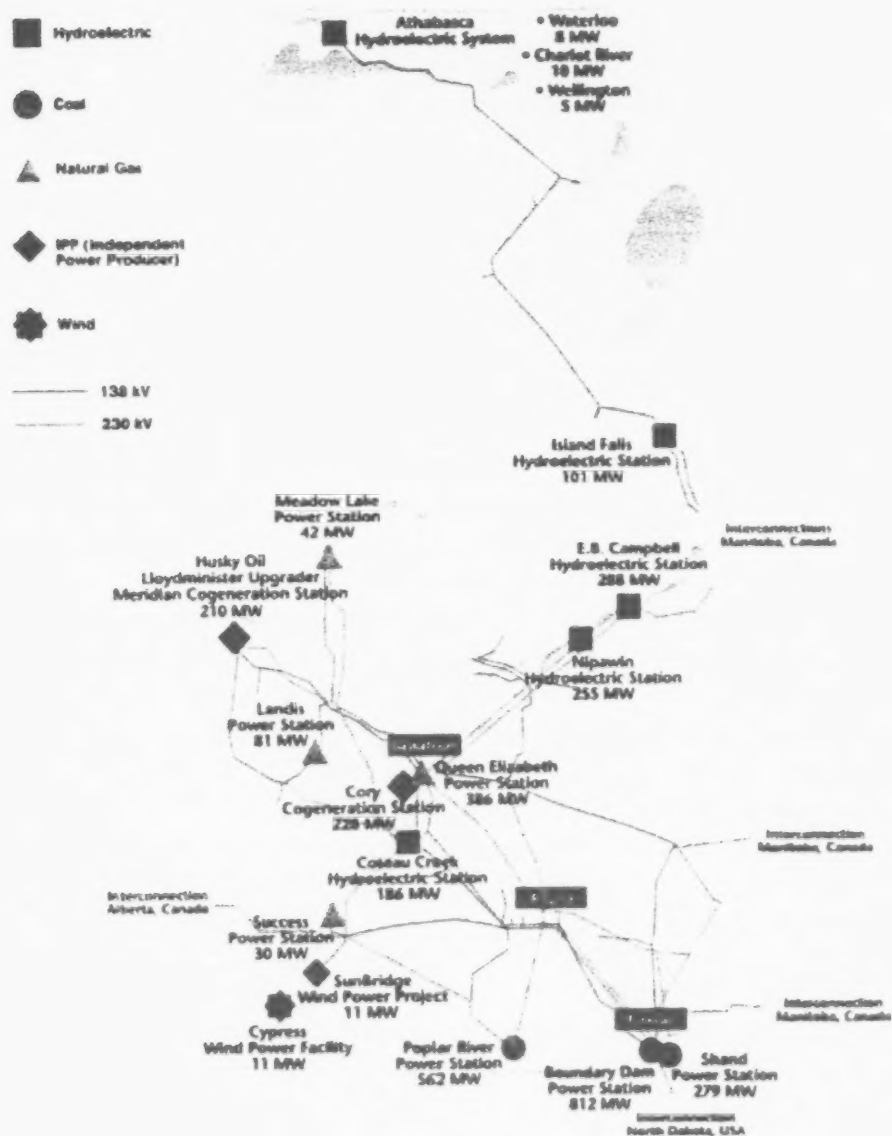


Figure 1:

SASKPOWER GENERATION AND HIGH VOLTAGE TRANSMISSION MAP



4.2. System Load Forecasts

4.2.1. Basic Premise - Economic Growth

System load forecasts for an electrical utility are typically conducted annually. These load forecasts serve as long-term planning tools in an effort to anticipate future electrical generation demands, as well as transmission and distribution requirements. One of the fundamental tools used for anticipating future energy demand is projected economic growth.

The key economic growth indicators for the Province of Saskatchewan are forecast to be:

Table 4.1: Saskatchewan Growth Indicators*

	1995-2004	2004-2014	Directional Indicator
Population	2.5% decline	1.5% decline	-/-
Households	2.5% increase	4.0% increase	+/+
GDP (constant \$)	25% increase	22% increase	++/++
Employment	8.0% increase	2.0% increase	+/+
Personal Income	30% increase	55% increase	++/++
Farm (Net Income)	35% decline	30% increase	--/++
Potash Production	4.5% increase	30% increase	+/++
Oil Production	30% increase	14% increase	++/+

* economic drivers for the 2005 Business Plan Load Forecast from SaskPower

Analysis of the above in conjunction with other data provided, would suggest:

- Modest, if any, growth in residential/farm energy consumption (future farm income growth may be overly optimistic given trade issues and unfavourable weather).
- Modest, if any, growth in commercial energy consumption.
- Modest growth in the reseller energy consumption.
- Continued growth in the oilfields energy consumption.
- Significant growth in the power sector.
- Very modest growth in total domestic energy consumption.

4.2.2. Electricity Usage History

Table 4.2 from the 2004 Load Forecast (March 2004) provides both a historical perspective and a future forecast of energy consumption/customer usage in SaskPower's operations. It provides a breakdown by customer class of energy consumption, as well as a perspective on SaskPower's total domestic energy consumption. Table A-1 in Appendix A also includes the breakdown of the number of customers per class as well as the peak demands.

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Employment	8.0% increase	2.0% increase	+/+
Personal Income	30% increase	55% increase	++/++
Farm (Net Income)	35% decline	30% increase	--/++
Potash Production	4.5% increase	30% increase	+/++
Oil Production	30% increase	14% increase	++/++

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Saskatchewan Rate Review Panel - Independent Review of the SaskPower Rate Proposal of August 2004

Table 4.2: SaskPower Annual Energy Sales

	1999*	2000*	2001*	2002*	2003*	2004**	2005**	2006**	2007**	2008**	2009**	2014***	Ten-Year*** % Increase	Annual Growth 1993- 2003***
Residential	2,315	2,337	2,386	2,457	2,509	2,459	2,494	2,520	2,548	2,583	2,604	2,718	1.0%/year	1.20%
Farm	1,300	1,305	1,386	1,367	1,442	1,362	1,432	1,419	1,432	1,441	1,448	1,452	0.2%/year	
Commercial	3,252	3,408	3,457	3,461	3,151	3,095	3,122	3,134	3,133	3,145	3,156	3,204	0.4%/year	
Oilfield	1,299	1,505	1,640	1,728	2,082	2,160	2,285	2,497	2,664	2,871	3,011	3,758	5.6%/year	9.90%
Key Account (Power Accounts)	6,033	6,164	5,839	5,722	6,279	6,491	6,788	7,165	7,325	7,437	7,539	7,965	2.0%/year	
Reseller	1,195	1,240	1,246	1,263	1,287	1,261	1,300	1,315	1,329	1,348	1,359	1,429	1.0%/year	1.80%
Saskatchewan Electric Sales	15,394	15,959	15,954	15,998	16,750	16,828	17,421	18,050	18,431	18,825	19,117	20,526		

* annual reports (1999 to 2003)

** forecasted as per 2005 Business Plan

*** forecasted as per 2004-2014 Load Forecast, March 2004

SaskPower's total domestic consumption increased by 30% (1993-2004) and is forecast to increase by 20% (2004-2014). Most of the future growth is expected to be in the power and oilfield classes.

SaskPower's peak demand increased by 20% (1993 to 2004) and is forecast to increase by 18% (2004-2014). This convergence of energy and demand growth rates suggests a shift towards lower load factor customers. It may also be an indication that increasing electrical heating, with its winter peak, is affecting the load factor.

Given the U.S. trade restrictions on livestock and the unfavourable 2004 weather conditions, it is probable that domestic energy usage in the residential, farm, and commercial sectors will see no growth or even a decline in 2004. As well, the oilfield and power classes could see less than the budgeted growth. Overall (with reference to the October 31, 2004 budget updates), domestic load would appear to be near to 2003 levels.

4.2.3. Class Load Forecasts

There appears to have been a significant shift in SaskPower's domestic customer class shares of energy consumption:

Table 4.3: SaskPower Energy Consumption by Class

	1993	2004	2014
Residential	15%	13%	12%
Farm	10%	8%	7%
Commercial	22%	16%	14%
Power	30%	35%	35%
Oilfields	6%	12%	17%
Reseller	7%	7%	7%
Losses	10%	9%	9%

It appears that residential/farm/commercial sectors' usage of electricity as a proportion of the total load is declining, while the industrial sector is growing by a corresponding percentage to the other sectors' drop. Losses appear to be relatively constant.

4.3. Power Resource Analysis

4.3.1. SaskPower's Strategy for Resource Use

SaskPower's approach to power resource utilization in meeting domestic load and export sales requirements can typically be summarized as follows:

Table 4.4: SaskPower Resource Utilization

Priority of Usage	Power Resource	Capability (GWhr/yr)
1	Meridian - Must Run	1700
	Cory-Must Run	700
	Queen Elizabeth - Gas Must Run	0-300
2	Hydro - Must Run	1000-2500
	Coal	11,500
	Wind - Must Run	40
3	Hydro Dispatchable	0-1500
	Off-Peak Imports	0-1400
	Cory Dispatchable	0-600
	Gas Dispatchable	0-1200
4	On-Peak Imports	0-700

The foregoing suggests that SaskPower's domestic load of about 17,000 GWhr can be met by its "Must Run" and coal resources. It follows that in most years, SaskPower will be able to export about 500-2000 GWhr of electrical energy by calling on its dispatchable resources and import opportunities.

SaskPower's total domestic consumption increased by 30% (1993-2004) and is forecast to increase by 20% (2004-2014). Most of the future growth is expected to be in the power and oilfield classes.

SaskPower's peak demand increased by 20% (1993 to 2004) and is forecast to increase by 18% (2004-2014). This convergence of energy and demand growth rates suggests a shift towards lower load factor customers. It may also be an indication that increasing electrical heating, with its winter peak, is affecting the load factor.

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Power	30%	35%	35%
Oilfields	6%	12%	17%
Reseller	7%	7%	7%
Losses	10%	9%	9%

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4.3.2. Electricity Production History

Table 4.5: SaskPower Generation Capacity/Energy Production/Unit Fuel Prices

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Hydro											
• MW						847	853	853	853	853	853
• GWhr	4059	3337	4118	4377	3986	3650	3660	3046	2391	2836	3416
• ¢/KWhr	0.25	0.26	0.26	0.27	0.27	0.27	0.25	0.26	0.27	0.27	0.28
Coal											
• MW						1631	1658	1653	1653	1653	1653
• GWhr	10408	11182	11254	11225	11256	11609	11551	11436	11711	11670	11730
• ¢/KWhr	1.1	1.15	1.19	1.24	1.25	1.23	1.25	1.46	1.59	1.43	1.44
Gas Fired											
• MW							378	378	374	539	539
• GWhr	343	475	530	506	1141	1257	995	924	798	989	1066
• ¢/KWhr	3.83	3.18	2.89	2.61	2.69	3.20	4.73	7.24	12.96	5.85	8.11
Wind											
• MW											
• GWhr									2	39	38
• ¢/KWhr									12.29	6.91	6.65
Meridian											
• MW								(232 maximum, 210 average)			
• GWhr							146	1691	1690	1684	1681
• ¢/KWhr								4.66	5.54	4.8	5.9
Cory											
• MW								(263 maximum, 228 average)			
• GWhr										46	1233
• ¢/KWhr										7.8	7.0
Import											
• MW											
• GWhr	520	595	290	785	982	1535	1484	1995	2126	1431	1142
• ¢/KWhr	1.77	2.04	1.65	1.55	2.15	2.93	3.41	3.45	3.92	3.63	4.68
Totals											
• MW											
• GWhr	15390	15590	16192	16893	17366	18050	17835	19092	18718	18699	20326
• ¢/KWhr	0.96	1.06	1.02	1.04	1.17	1.32	1.44	2.04	2.53	1.99	2.50

Source: Annual Reports and Appendix D in 1993-2003 Report on Operating Costs

4.3.2. Electricity Production History

Table 4.5: SaskPower Generation Capacity/Energy Production/Unit Fuel Prices

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Hydro											
• MW						847	853	853	853	853	853
• GWhr	4059	3337	4118	4377	3986	3650	3660	3046	2391	2836	3416
• ¢/KWhr	0.25	0.26	0.26	0.27	0.27	0.27	0.25	0.26	0.27	0.27	0.28
Coal											
• MW						1631	1658	1653	1653	1653	1653
• GWhr	10408	11182	11254	11225	11256	11609	11551	11436	11711	11670	11730
• ¢/KWhr	1.1	1.15	1.19	1.24	1.25	1.23	1.25	1.46	1.59	1.43	1.44
Gas Fired											
• MW							378	378	374	539	539
• GWhr	343	475	530	506	1141	1257	995	924	798	989	1066
• ¢/KWhr	3.83	3.18	2.89	2.61	2.69	3.20	4.73	7.24	12.96	5.85	8.11
Wind											
• MW											
• GWhr									2	39	38
• ¢/KWhr									12.29	6.91	6.65
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• MW								(232 maximum, 210 average)			
• GWhr							146	1691	1690	1684	1681
• ¢/KWhr								4.66	5.54	4.8	5.9
Cory											
• MW								(263 maximum, 228 average)			
• GWhr										46	1233
• ¢/KWhr										7.8	7.0
Import											
• MW											
• GWhr	520	595	290	785	982	1535	1484	1995	2126	1431	1142
• ¢/KWhr	1.77	2.04	1.65	1.55	2.15	2.93	3.41	3.45	3.92	3.63	4.68
Totals											
• MW											
• GWhr	15390	15590	16192	16893	17366	18050	17835	19092	18718	18699	20326
• ¢/KWhr	0.96	1.06	1.02	1.04	1.17	1.32	1.44	2.04	2.53	1.99	2.50

Source: Annual Reports and Appendix D in 1993-2003 Report on Operating Costs

4.3.3. Hydro-electric/Hydraulic Generation

SaskPower's seven hydro-electric/hydraulic (hydro) generating facilities have a peak capacity of 853 MW and are capable of generating 2500-4000 GWhr of energy per year. Under median flow conditions and with all units in operation, output should be 3500 GWhr.

In 2004, SaskPower's August update suggests that only 2500 GWhr will be produced based on very low river flows in the early part of the year. Removal of the Nipawin G.S. Unit #2 from service to carry out major refurbishment apparently does not account for the reduced energy production.

The 2500 GWhr (30% below median flow) would amount to 15% of SaskPower's total energy needs and would require unbudgeted gas generation for some 800 GWhr at an added cost in excess of \$50 M.

However, an examination of Saskatchewan River flows with flows collected at The Pas in Manitoba, indicate that there may have been a return to average flow conditions (see Appendix B) after May of 2004. This situation might bring the hydraulic generation for 2004 to about 3000 GWhr (if all units were operational). If this scenario were to develop, SaskPower would see a \$30 M improvement on its net fuel and purchased power account for 2004.

4.3.4. Coal Generation

SaskPower has no long-term plans for expansion of its coal generation facilities due to high capital costs and undefined environmental mitigation concerns. However, the Corporation anticipates a significant level of pollution (CO₂) taxes (at least \$15/tonne of CO₂ or \$80 M/year) or equivalent greenhouse gas abatement measures after 2008.

Coal-fired generation currently makes up 65% of SaskPower's in-province electricity capability and with fuel costs of 1.6¢/KWhr, it is logically the continuing backbone of its energy production. Even at double or triple the CO₂ environmental penalty, the cost of coal energy production would still be competitive with natural gas generation.

Despite its pending liabilities, coal generation will likely continue providing about 11,700 GWhr of SaskPower's annual energy needs.

4.3.5. Natural Gas Generation

SaskPower's emphasis has been on the expansion of its gas-fired generation to meet future growth in energy needs. The conversion/re-powering of the Queen Elizabeth Station (2002), the contract with the Meridian Co-generation Plant (1998), and the 2002 investment in the Cory Co-Generation facility all followed this trend. The result being that the total natural gas generation capability is 1025 MW and 3000 GWhr/yr.

The foregoing strategy going into 2003 provided SaskPower with marginal energy costs under 6¢/KWhr. However, 2003 and 2004 volatility in the natural gas supply market has driven these marginal costs into an 8¢ KWhr range (see Table 4.5).

Because SaskPower hedges (forward purchasing) a minimum of 40% to a maximum of 100% of its natural gas supply, a year prior to the year hedged, it has been able to avoid a significant portion of the natural gas price volatility for 2004.

SaskPower is extremely sensitive to natural gas pricing, as it is responsible for the purchase of natural gas to fuel the Meridian Co-Generation operation, the Cory Co-Generation operation, and the Queen Elizabeth and other gas turbine generation plants. Because SaskPower engages in the forward purchasing (hedging) of natural gas supplies for immediate usage or for storage, the Corporation does not necessarily experience the effect of short-term upward or downward movements in the natural gas market. However, on a longer term basis, SaskPower does end up paying the long-term average market price for natural gas.

Recent reversals in the natural gas forecast prices suggest SaskPower will be faced with some escalation of natural gas fuel supply costs. Recent forecasts suggest the impact may be in the order of 8-14% in 2004 and could have a significant impact in 2005 and on a going forward basis. This is because SaskPower does the following:

- Buys all of the Meridian plant generation (contractual).
- Buys most of the Cory plant generation (contractual and supply priority policy).
- Needs to operate some minimum level of gas plant (e.g., Queen Elizabeth) operation.

Consequently, the Corporation has limited flexibility in optimizing its hydraulic generation and its import/export capabilities.

It would appear that only the Cory Co-Generation production allows for output reduction when natural gas supply costs become excessive. When natural gas supply costs exceed \$8.00/G.J., it is likely that

limiting the Cory plant output can achieve fuel/purchased power savings by optimizing import energy purchases.

If these contractual arrangements did not exist, it is probable that SaskPower might employ much larger economical imports (when available).

Over the last five years, SaskPower (in association with SPI), has brought two co-generation plants on stream. As a longer term strategy (using 2000 natural gas pricing), these resources were expected to cover energy demand growth and (if necessary) displace coal generation.

Because natural gas prices went up from \$6/GJ rather than down (to 2000 levels), the addition of co-generation plants (which are highly dependent on natural gas) made power purchase agreements (e.g., Cory) less favorable in the short-term energy supply picture. Consequently, the full utilization of Cory generation may not always be financially optimal for SaskPower's electricity ratepayers.

SaskPower has a contract to buy most of the generation capacity from the Cory Co-generation plant (station) and accordingly has fixed minimum capacity payment requirements. Given that SaskPower International has a substantial equity investment in "Cory," opportunities to use other lower cost energy generating sources including using imports, is severely constrained sometimes to the short-term detriments of the SaskPower ratepayer. Over the longer term, positive results from this contract should accrue for SaskPower ratepayers.

4.3.6. Imports and Exports

SaskPower's ability to import/export energy is governed by transmission interconnection to Alberta through 1 - 230 kv DC transmission line with a transfer capability of 153 MW outbound and 15 MW inbound, to Manitoba through 3 - 230 kv AC lines and 2 - 115 kv AC lines with a total transfer capability of 475 MW outbound and 450 MW inbound; and to North Dakota 1 - 230 kv AC line with a transfer capacity of 215 MW outbound and 165 MW inbound. These transfer capabilities to/from Manitoba and North Dakota are inter-related and cannot be supported simultaneously. SaskPower's Business Plan assumes that tie-line capacity is 315 MW inbound and 629 MW outbound.

SaskPower's primary strategy in utilizing the above tie-line capacities is driven by energy prices. Hence, almost all imports are off-peak and almost all exports are on-peak. Because of limited hydro reservoir storage, the trading is same day/same week, with little conflict between import and export use of tie-line capacity.

Historical data (1993-2003) reveals the following:

Table 4.6: SaskPower Annual Imports and Exports

Year	Imports (GWhr)	Exports (GWhr)	Exports Minus Imports
1993	520	645	+
1994	595	190	-
1995	290	490	+
1996	785	467	-
1997	982	369	-
1998	1535	618	-
1999	1484	802	-
2000	1995	1143	-
2001	2126	944	-
2002	1431	777	-
2003	1142	1761	+
2004 (forecast August 31, 2004)	1436	1220	-

It is apparent from the above, that imports have typically been used to support exports and part of the domestic load. Only in 2003, did exports significantly exceed imports.

When imports are primarily done during the off-peak system, the system would be able to achieve about 1400-1900 GWhr.

Given the relatively high price of natural gas, there would appear to be some opportunity to economically expand the 2004 level of imports from lower cost utilities such as Manitoba. An additional 200-400 GWhr above the August 31, 2004 forecast may be achievable. The resulting displaced gas generation in 2004 may result in savings in the order of \$20M. If it displaced Cory Co-Generation where capacity charges apply, the 2004 saving might only be \$10 M.

4.3.7. Wind Generation

SaskPower currently has 11 MW of wind generation with an established annual output of 40 GWhr. Plans call for an additional 150 MW being brought into service in 2005.

This wind generation is a must-run energy resource and typically is intended to replace natural gas generation on an economic basis and coal generation output on an environmental basis. Because wind is not a form of firm energy, it requires 100% backup. Consequently, it may be only economical at a relatively small scale (e.g., 5-10% of total generation).

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When SaskPower's domestic load grows sufficiently to command all of SaskPower's must-run capability, the marginal value of additional wind energy should increase. However, currently, the must-run gas plants preclude achievement of maximum benefits.

4.3.8. Planned Maintenance, Life Extensions and Shutdowns

SaskPower has a long-term strategy for generation facility life extension, refurbishment, and/or retirement. In addition, it carries out annual maintenance programs to ensure plant reliability and maximize availability.

Recent and proposed major facility upgrades and resource additions include:

- Queen Elizabeth (conversion to gas) 1996
- Boundary Dam Coal (Unit #5) 1997
- Meridian Co-Generation (Contract) 1999 on-line
- Landis Gas 1999
- Cory Co-Generation (Contract) 2002 on-line
- Boundary Dam Coal (Unit #6) 2003
- Nipawin Hydro (Unit #2/Unit 1-3) 2003-2005
- Island Fall Hydro (7 Units) 2007-?

These refurbishments/upgrades/additions are typically scheduled to minimize the interrupted generation capability (usually less than 5%/year) and hence, limit the economic costs associated with reduced capacity or replacement energy. With 70% of SaskPower's lower cost energy coming from coal and hydro, the shorter the period of out of service, the better.

Table 4.7: SaskPower's Generating Capacity & Firm Contracts

	# of Units	Total Current Maximum Capacity (MW)
Coal		
Boundary Dam	6	812.5
Poplar River	2	562
Shand	1	276.3
Total Coal	9	1650.8
Natural Gas		
Queen Elizabeth	9	386
Landis	1	78.9
Meadow Lake	1	43.9
Success	3	30
Total Natural Gas	14	538.8
Hydro		
Coteau Creek	3	186
E.B. Campbell	8	288
Island Falls	7	101
Nipawin	3	255
Wellington	2	4.8
Waterloo	1	8
Charlot River	2	10
Total Hydro	26	852.8
Wind		
SaskPower Wind		10.6
Total Wind		10.6
Firm Contracts		
Cogeneration		
BEPC Diversity		0
Meridian		228
Cory		263
Wind		
Sunbridge Wind		11.2
Total Contracts		502.2
Total Capacity – Installed & Firm Contracts		3555.2

As of March 2003

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Sunbridge Wind		11.2
Total Contracts		502.2
Total Capacity – Installed & Firm Contracts		3555.2

As of March 2003

4.3.9. Demand Side Management - Energy Conservation

SaskPower's Demand Side Management (DSM) programs tend to be load reduction measures to defer future new generation facilities and to avoid the dispatchment of high cost gas-generated energy. Because SaskPower has been diligent in maintaining its ability to meet peak loads, the system does not benefit significantly from peak reduction measures. However, SaskPower endeavors to peak shaving efforts through DSM programs to reduce costs associated with marginal production.

Also in the energy production area, the available resources are seasonal and diurnally variable and hence, it is difficult to optimize energy conservation measures. Consequently, the only measures that assist SaskPower are ones that avoid deployment of high cost resources and the need for new firm power generation. SaskPower has not to date defined a value for the avoidance of high cost energy production or the deferral of new generating facilities (the introduction of wind generation non-firm energy has complicated this value definition).

Because of SaskPower's current energy resource mix, conservation type energy consumption reduction measures (such as ground source heating, solar heating, etc.) do not offer any immediate economic benefits to SaskPower or its rate payers. These measures therefore have to be evaluated on an extended time basis and potential environmental benefits.

The Saskatchewan government (with SaskEnergy/SaskPower) may see greater benefits to these alternative heating concepts, which largely reduce (almost eliminate) certain energy consumptions. These programs or concepts could assist in meeting Green House Gas reduction targets.

In the context of SaskPower's Business Plan, it is difficult to argue for significant additional efforts to reduce energy consumption. Without knowing the specific financial implication of continued coal production (CO₂ taxes) for SaskPower, it is difficult to develop energy resource alternatives of a substantial nature. SaskPower has deferred a \$3.5 M DSM Capital Program for 2004 for further study.

5. ANALYSIS OF EXPENDITURES

5.1. Energy Pricing

SaskPower's 2004 budgets/updated forecasts of energy pricing can be summarized as follows:

Table 5.1: SaskPower 2004 Forecasted Energy Prices (Incremental Prices related to F&PP)

	¢/KWhr	
Coal	1.425	down 0.025¢ from 2003
Gas	7.680	down 0.025¢ from 2003
Hydro	0.285	up 0.005¢ from 2003
Imports (SaskPower Corporation)	5.349	up 1.379¢ from 2003
Imports (Northpoint)	4.268	down 2.192¢ from 2003
Cogeneration (Cory)	8.047	down 0.283¢ from 2003
Cogeneration (Meridian)	5.885	down 0.045¢ from 2003
Wind	7.191	up 0.631¢ from 2003
Gross Average	2.552	down 0.008¢ from 2003

Overall, the foregoing suggests a relatively stable energy supply price scenario. However, it is worth noting that because of volume variability and timing, the impacts of deviations from forecast can be significant.

In 2004, the updated forecast gas pricing is based on \$6/GJ, which is the largely due to hedged price that SaskPower has established for 2004 and to a less degree 2005. Future natural gas prices are forecast to variably be in the \$6/GJ to \$10/GJ range, which would translate into gas-driven electricity costs of 8 to 12¢/KWhr.

Non-firm export sale prices to MAPP (Manitoba/N.D.) for the early part of 2004 were 6 to 10¢/KWhr; on-peak energy prices on the opportunity market this summer ranged from 5 to 8¢/KWhr. Off-peak prices for imports at the same time were 3 to 4¢/KWhr. This provides a significant margin for off-peak to on-peak trading.

Export firm sale prices in Alberta for 2004 were forecast to be 6 to 7¢/KWhr. This compares with the estimated average cost of import and purchased power of about 6¢/KWhr. Since the incremental Alberta market is essentially tied to the same natural gas prices as Saskatchewan, the available margin for Alberta sales is likely greater than 1¢/KWhr if the SaskPower resource is natural gas. However, margin could be about 3¢/KWhr if off-peak Manitoba resources are the supply source.

The foregoing would suggest that SaskPower can have reasonable expectations of exceeding its recent 2004 forecasts of both the \$100 M± exports and \$60 M± imports if natural gas prices remain at or near \$6/GJ. It also suggests that since SaskPower's gas supply is substantially hedged, the export sales value

could be significantly greater if natural gas prices move upward. With favorably priced imports, the energy margins could be greater than forecast by as much as \$20-\$30 M.

5.2. Fuel and Purchased Power Costs

In the Rate Proposal submitted to SKRRP, one of the most significant expense items is Fuel and Purchased Power costs. Fuel and Purchased Power expense includes costs for coal, natural gas (including that for Cory and Meridian), hydro, purchased power, wind and imported power.

Table 5.2: SaskPower Fuel and Purchased Power Costs

Millions

1999	2000	2001	2002	2003	2004	2005	2006
\$251	388	468	366	507	468*	468**	
					521***	507***	541***

* forecasted as Feb 2/04

** forecasted as May 31/04

*** forecasted 2005 Business Plan

In 2003 (fuel and purchased power as a percentage of GWH of energy generated) natural gas represented 5% generation from Queen Elizabeth and 14% purchased power from Meridian and Cory Co-generation. The natural gas generation represented about 28% of the generation capacity of SaskPower.(15% SaskPower owned facilities and 13% Meridian/Cory) Table 3.2.4 in the proposal highlights fuel and purchased power costs as a percentage of revenue have risen from 26% in 1999 to 42% in 2003. The February 2004 forecasts suggested that 37.5% of revenue will be fuel costs in 2004 and 35.8% in 2005.

In February 2004, SaskPower forecasted the average cost of natural gas purchases would fall to \$5.87/GJ in 2004 and decline further to \$5.46/GJ in 2005. The comparative figures for 2003 were \$6.25/GJ and \$3.98/GJ in 2002. Most recent market events have suggested that forward unhedged natural gas prices for this winter could in the \$7.50/9.00/GJ range and \$7.00/GJ next spring and summer at the AECO hub.

In addition to the price volatility of natural gas, the volumes used by SaskPower are subject to significant variability. SaskPower used approximately \$35 M GJ's in 2003 and originally forecasted using fewer than \$31 M GJ's in 2004 and 2005; this includes Meridian and Cory at a forecasted cost of \$175.1 M for 2004 and \$193.0 M for 2005.

In August, the forecast was revised reflecting current market conditions. The updated forecasted volume for 2004 is \$32.6 M GJ's with a total cost of \$212.4 M, an increase of \$37.3 M over the original forecast, and \$210.4 M in 2005, an increase of \$17.4 M. These forecasts include hedging costs and benefits.

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As a result of the Corporation's price risk management program, the market to market benefit net of hedging costs is approximately \$6.3 M as at August 31, 2004.

As the foregoing detail suggests, costs for natural gas are volatile because of both fluctuating prices and volume requirements. Other fuel sources, with the exception of hydro which relies on water conditions, have a low level of volatility in the terms of price and volume. Since natural gas prices are set in the North American context, external to Saskatchewan, they represent the biggest risk to the annual net income of SaskPower.

5.3. Operating, Maintenance, and Administration Expenses

Operating, Maintenance and Administration expenses (OM&A) include all costs associated with the operation, maintaining, administration, and management of SaskPower. Labour costs account for over two thirds of the approximately \$292 M total costs in 2003. The remainder of the costs fall into the categories of External Services, approximating 23%, with the balance being in the categories of material, supplies, and other costs.

The operating units of Power Production, Transmission and Distribution, and Customer Services account for approximately 75% of the total cost of \$292 M (actual costs in 2003), with the supporting business units (financial, human resources, etc.) accounting for the balance.

Table 5.3: Operating, Maintenance, and Administration Costs

Millions

2000	2001	2002	2003	2004*	2005**
260	250	279	292	299	310

* forecasted as at Feb 2/04

** forecasted as at May 31/04

While the SaskPower Rate Proposal forecasted OM&A for 2004 at \$299 M and 2005 at \$310 M, the budget approved for SaskPower OM&A for 2004 is \$303.8 M, an increase of \$11.8 M or 3.9% over 2003. The new forecast for year 2005 is \$309 M, and for year 2006 \$315 M. Total OM&A expenses have increased from \$278 M in 1999 to \$292 M in 2003. Over that same period, labour costs have increased in excess of \$40 M. None of the forecasts include funds that may be necessary to meet the Kyoto Protocol targets for reduced CO₂ emissions.

Over the period 2000-2005, annual OM&A costs averaged per customer are forecasted to grow from \$612.00 to \$706.00, as shown in Table 5.4. SaskPower has not quantified productivity or technical gains that are included in the above analysis.

Table 5.4: SaskPower Average Operating, Maintenance, and Administration Costs Per Customer*Millions*

2000	2001	2002	2003	2004*	2005*
\$612	\$588	\$659	\$690	\$684	\$706

* forecasted, SaskPower supplementary information, October, 2004

On a forward going basis, SaskPower OM&A are expected to increase at an annual average of 2% per year. SaskPower continues to exercise cost control measures through the utilization of a formalized cost control processes that include planning, budgeting, monthly reporting, and variance analysis which ensures costs and other resource allocations are consistent with its operating, strategic, and capital plans.

While OM&A expenses appear reasonable, particularly since a significant portion of the costs are attributable to staff costs mainly controlled by labour contracts, the corporation must remain diligent in taking steps to control expenses. It also must seek out improved efficiencies wherever it is reasonable and feasible.

5.4. Capital Expenses

Table 5.5: SaskPower Capital Expenditures*Millions*

1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
\$117	\$160	\$137	\$185	\$212	\$364	\$305	\$267	\$261	\$314

* forecasted, rate proposal

SaskPower Capital Spending over the past decade (1994/2003) has ranged from a low in 1996 of approximately \$117 M to a high of \$364 M in 2001. Capital Expenditures are expected to be \$261 M in 2004 and \$314 M in 2005. Most of the expenditures planned fall into the broad categories of Transmission & Distribution, Power Production (including emission research and improvements), and Customer Service and Corporate. The implications of implementing the Kyoto Protocol have not been estimated and accounted for in the 2004/2005 Capital Programs.

SaskPower undertook a capital rationing program as part of the 1996 Business Unit Reorganization. At that time, Capital Spending was limited to an amount that could be internally funded with surplus cash being used to reduce debt levels. Although this had a positive impact on the financial strength of the company, an increase in demand for energy coupled with an aging infrastructure meant that capital spending levels had to increase to meet the obligation to serve the customer.

As a result of the Corporation's price risk management program, the market to market benefit net of hedging costs is approximately \$6.3 M as at August 31, 2004.

As the foregoing detail suggests, costs for natural gas are volatile because of both fluctuating prices and volume requirements. Other fuel sources, with the exception of hydro which relies on water conditions, have a low level of volatility in the terms of price and volume. Since natural gas prices are set in the North American context, external to Saskatchewan, they represent the biggest risk to the annual net income of SaskPower.

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The operating units of Power Production, Transmission and Distribution, and Customer Services account for approximately 75% of the total cost of \$292 M (actual costs in 2003), with the supporting business units (financial, human resources, etc.) accounting for the balance.

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In 2004, SaskPower has deferred the \$3.5 M Demand Side Management (DSM) conservation program, but has moved ahead from Year 2005 SaskPower International (SPI) \$15.8 Wind Power Project. This increased budgeted Capital Program from \$270 M to \$282 M for the current year. In the years 2001/2002, the capital spending levels increased due to the construction of the Cory Co-Generation plant and the Queen Elizabeth RePowering project. (It should be noted that these capital expenditures are the consolidated forecasts including SPI)

SaskPower has indicated that it focuses its capital spending requirements on balancing the competing needs of operating concerns with the desire to maintain fair and equitable rates while providing a reasonable return to the shareholder. They also suggest there is significant future pressure on increased investment for added generation assets and to accelerate the replacement or retrofit of the transmission and distribution assets.

5.5. Depreciation and Amortization Expense

SaskPower undertook a new Depreciation Study in 2001, which was subsequently approved by the SaskPower Board in 2002 to be effective January 1, 2002. In 2003, the SaskPower Board also approved the Asset Retirement Obligation Study (ARO) which is intended to estimate the cost and timing of the decommissioning activities related to long-lived assets. Prior to 2003, the Corporation used a straight lined method to estimate costs of decommissioning.

The new approach meets the new standard adopted by Canadian Institute of Chartered Accountants (CICA) as detailed in section 3110 of the handbook "Asset Retirement Obligations." Under this new section, the Corporation is required to recognize fair value (net present value) of the total estimated future decommissioning costs when the assets are put in service.

The new ARO standards were implemented for the year 2003 (retroactively) and continue to be applied on a going forward basis for the year 2004 and beyond.

The net benefit of implementing the depreciation study was a net reduction in depreciation expense of approximately \$525 thousand. The impact of the ARO change in accounting policy was a \$10 M decrease in depreciation expense now booked for the year 2003 to the benefit of the corporations net income. As a result, there will also be a net benefit in this accounting policy change for the year 2004 going forward.

The SaskPower Rate Proposal originally forecasted depreciation expense to increase from \$182 M in 2003 to \$204 M in 2005. As a result of the foregoing changes, the Depreciation and Amortization expenses, which were originally budgeted in 2004 on a consolidated basis to be \$198.5 M, are now forecasted to be \$190.7 M. SaskPower depreciation expense is expected to be \$186.1 M of the

forecasted consolidated total of \$190.7 M. This reduces the revenue requirement by \$8-\$10 M from 2004 onward. The increase from year 2005 to 2006 is largely attributed to the wind project.

Table 5.6: SaskPower Depreciation and Amortization Expenses

Millions

2001	2002	2003	2004	2004*	2005**	2006**
\$168	\$177	\$186	\$198	\$191	\$193	\$216

* forecasted August 31, 2004

** forecasted 2005 Business Plan

5.6. Finance Charges

SaskPower Rate Proposal stated finance charges in 2003 were \$145 M and were forecasted to increase to approximately \$150 M in Year 2005. The proposal suggested that this was mainly as a result of the increased capital expenditure program planned which ultimately will increase the Corporation's debt levels.

However, the Consolidated Annual Report and Financial Statements restated the finance charges for 2002 to \$147 and \$152 M for 2003 (these are inclusive of SPI). This restatement was as a result of the new accounting policy adopted by CICA, as described in Section 5.5.

Table 5.7: SaskPower Annual Finance Charges

Millions

2001	2002	2003	2004*	2005*	2006*
\$181.0	147.0	152.0	165.0	178.5	192.7

* forecasted September 30, 2004

While SaskPower indicates that most recent debt carries a lower coupon rate (less than 7%) the 2004 consolidated finance charges are expected to increase approximately \$13 M or 8.5% higher than 2003 and increase \$13.5 M in 2005 or another 8% over 2004.

5.7. Foreign Exchange

In 2003, SaskPower had a foreign exchange gain of \$113 M due to the restatement of US dominated debt caused by the appreciation of the Canadian currency. In accordance with Generally Accepted Accounting Principles (GAAP), foreign exchange gains and losses are to be taken into account in the year of restatement.

forecasted consolidated total of \$190.7 M. This reduces the revenue requirement by \$8-\$10 M from 2004 onward. The increase from year 2005 to 2006 is largely attributed to the wind project.

Table 5.6: SaskPower Depreciation and Amortization Expenses

Millions

2001	2002	2003	2004	2004*	2005**	2006**
\$168	\$177	\$186	\$198	\$191	\$193	\$216

* forecasted August 31, 2004

** forecasted 2005 Business Plan

5.6. Finance Charges

SaskPower Rate Proposal stated finance charges in 2003 were \$145 M and were forecasted to increase to approximately \$150 M in Year 2005. The proposal suggested that this was mainly as a result of the increased capital expenditure program planned which ultimately will increase the Corporation's debt levels.

However, the Consolidated Annual Report and Financial Statements restated the finance charges for 2002 to \$147 and \$152 M for 2003 (these are inclusive of SPI). This restatement was as a result of the new accounting policy adopted by CICA, as described in Section 5.5.

Table 5.7: SaskPower Annual Finance Charges

Millions

2001	2002	2003	2004*	2005*	2006*
\$181.0	147.0	152.0	165.0	178.5	192.7

* forecasted September 30, 2004

While SaskPower indicates that most recent debt carries a lower coupon rate (less than 7%) the 2004 consolidated finance charges are expected to increase approximately \$13 M or 8.5% higher than 2003 and increase \$13.5 M in 2005 or another 8% over 2004.

5.7. Foreign Exchange

In 2003, SaskPower had a foreign exchange gain of \$113 M due to the restatement of US dominated debt caused by the appreciation of the Canadian currency. In accordance with Generally Accepted Accounting Principles (GAAP), foreign exchange gains and losses are to be taken into account in the year of restatement.

Table 5.8: SaskPower Foreign Exchange Gains (Losses)

Millions

2001	2002	2003	2004*	2005*
\$(44)	6	113	(8)	0

* forecasted September, 2004

With the most recent performance of the Canadian Dollar (near \$.82) and its forecasted year end value, it is expected that the loss forecasted for 2004 will be eliminated and an approximate gain of \$2.5 to \$4.5 M will be realized. Since approximately 80% of US dominated debt is now hedged, the foreign exchange gains will mainly be realized on the unhedged portion of the US debt.

5.8. Dividends

As part of SaskPower Key Financial Assumptions in their Rate Proposal, the dividend rates used for 2003/2004 was forecasted at 90% of net income; for 2005, it was forecasted at 65%.

This dividend rate is set by Crown Investment Corporation (CIC) in accordance with their dividend policy for Crown Corporations. The policy allows for dividends to be set with a range of 40% to 90% of net income. In addition, CIC can request a special dividend from time to time.

SaskPower also states that CIC establishes a target at the beginning of each calendar year and it is finalized prior to the approval of the financial statements by SaskPower. The dividend rate for 2005 is based on the assumption that the corporation debt/equity structure and level will return to its target level of 60/40.

SaskPower stated that based on a review of the financial risk it faces, that the appropriate return on equity level (ROE) to the shareholder should be 10%. The 2004 rate application, if approved as submitted, will achieve that target. The long-term ROE target for SaskPower proper and its subsidiaries is 10%. The current forecasted ROE for 2004 is expected to be 4.9%.

SaskPower by its own admission is considered to have one of the strongest financial positions of any government owned electric utility in Canada. Its balance sheet, including its interest coverage ratio, compares favourably to investor owned utilities.

Table 5.9: SaskPower Dividends*Millions*

	2001	2002	2003	2004*	2005*	2006*
Return on Equity	2.6%	10.9%	13.6%	10.0%	9.0%	10.1%
Debt Ratio	60.0	60.2	56.5	58.8	61.5	61.4
Dividends	\$16	\$82	\$169	\$140	\$79	\$94

* forecasted, 2005 business plan

One will note however, that the debt/equity structure of 60/40 cannot be maintained with a dividend rate set at greater than 65% of net income.

5.9. Debt Obligations

Table 5.10: SaskPower Annual Net Debt*Millions*

2000	2001	2002	2003	2004*	2005*	2006*
\$1,584	\$1,911	\$1,886	\$1,771	\$2,091	\$2,345	\$2,417

* forecasted, 2005 business plan

Net debt is defined as long term debt less sinking funds associated with the debt issue.

Currently, SaskPower has \$1,401 M in long-term bonds, with an average weighted coupon rate of 7.62% issued in Canadian currency, and approximately \$719 M with an average coupon rate of 8.04% (\$569 US funds) in US denomination. Since 2003, SaskPower has implemented a hedging program to reduce the volatility of the US/Can exchange rate. As of the fall of 2004, nearly 80% of the outstanding debt has been hedged, with a significant portion of the balance being covered by the sinking funds. The balance of the exposure is expected to be hedged by the end of 2005.

Traditionally, most of SaskPower borrowing is arranged through the Finance Department of the Province of Saskatchewan. While the debt is issued in the name of the Province, it is reassigned to SaskPower under the same issuing terms and conditions. This provides SaskPower with direct access to the Province's credit rating, which traditionally allows for lower cost of financing.

Table 5.8: SaskPower Foreign Exchange Gains (Losses)*Millions*

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\$(44)	6	113	(8)	0

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With the most recent performance of the Canadian Dollar (near \$.82) and its forecasted year end value, it is expected that the loss forecasted for 2004 will be eliminated and an approximate gain of \$2.5 to \$4.5 M will be realized. Since approximately 80% of US dominated debt is now hedged, the foreign exchange gains will mainly be realized on the unhedged portion of the US debt.

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This dividend rate is set by Crown Investment Corporation (CIC) in accordance with their dividend policy for Crown Corporations. The policy allows for dividends to be set with a range of 40% to 90% of net income. In addition, CIC can request a special dividend from time to time.

SaskPower also states that CIC establishes a target at the beginning of each calendar year and it is finalized prior to the approval of the financial statements by SaskPower. The dividend rate for 2005 is based on the assumption that the corporation debt/equity structure and level will return to its target level of 60/40.

SaskPower stated that based on a review of the financial risk it faces, that the appropriate return on equity level (ROE) to the shareholder should be 10%. The 2004 rate application, if approved as submitted, will achieve that target. The long-term ROE target for SaskPower proper and its subsidiaries is 10%. The current forecasted ROE for 2004 is expected to be 4.9%.

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Millions

	2001	2002	2003	2004*	2005*	2006*
Return on Equity	2.6%	10.9%	13.6%	10.0%	9.0%	10.1%
Debt Ratio	60.0	60.2	56.5	58.8	61.5	61.4
Dividends	\$16	\$82	\$169	\$140	\$79	\$94

* forecasted, 2005 business plan

One will note however, that the debt/equity structure of 60/40 cannot be maintained with a dividend rate set at greater than 65% of net income.

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Millions

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* forecasted, 2005 business plan

Net debt is defined as long term debt less sinking funds associated with the debt issue.

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Traditionally, most of SaskPower borrowing is arranged through the Finance Department of the Province of Saskatchewan. While the debt is issued in the name of the Province, it is reassigned to SaskPower under the same issuing terms and conditions. This provides SaskPower with direct access to the Province's credit rating, which traditionally allows for lower cost of financing.

5.10. Other Costs

In 2003, SaskPower paid \$28 M in compliance with provincial requirements for such obligations as grants in lieu of taxes and capital taxes, and it is estimated this amount will increase to \$29 M in 2005. The capital tax amounted to \$13.8 M in 2003.

Water Rental charges for 2004 (set by provincial requirements) are \$2.85228/megawatt, for an approximate annual cost of \$9.7 M. These costs are reflected in the Fuel and Purchased Power expense category.

Also included in Fuel and Power Purchased category is the Coal Royalty (set by provincial requirements) which has been increased substantially from 10.25% to 14.38%, corresponding to a 40.3% increase for 2004. On a per tonne comparison basis, SaskPower pays \$1.50 compared to British Columbia at \$0.41, with Alberta and North Dakota at \$0.55.

6. REVENUE REQUIREMENT

SaskPower has indicated that they require \$34 M additional revenue in 2004 and \$103 M additional revenue in 2005. To achieve this, they propose to increase domestic rates by 9% as of September 1, 2004 and 1.8% as of September 1, 2005. These increases, along with domestic sales growth and export sales, are expected to provide net incomes of \$114 M in 2004 and \$145 M in 2005.

Based on SaskPower's business assumptions, the foregoing does appear appropriate. However, there is a more optimistic scenario for 2004, which could see:

- 200 GWhr of additional hydro generation.
- 600 GWhr of additional imported energy.
- 300 GWhr of reduced gas generation.
- 500 GWhr of additional exports.
- Potential net revenue gain of \$20-\$30 M in 2004.

Updated forecasts to October 31, 2004 have shown:

- 300 GWhr additional hydro forecasts.
- 300 GWhr additional imported energy.
- 300 GWhr reduced gas generation.
- 200 GWhr additional exports.
- Potential gain of \$30 M.

This optimistic viewpoint might also see for 2005 and 2006:

- 600 GWhr of additional imported power.
- 300 GWhr of reduced gas generation.
- 300 GWhr of additional exports.
- Potential net income gain of \$15 to \$20 M in 2005 (and 2006).

However, it must be recognized that for 2005 and 2006, natural gas prices could rise, rather than decline, and consumption could rise and create significant costs (a 10% gas cost increase would cost \$20 M/year).

If these net income gains were translated into revenue requirement reductions of \$20-\$30 M (on average) per year, the requested September 1, 2004 increase could be reduced by 2% to 3% (the 2005 increase of 1.8% could be made conditional up or down depending on financial results). There could be a 2004 net income reduction of \$25 to \$30 M/year compared to the Application.

Should some of the more optimistic scenarios materialize, coupled with significant changes in foreign exchange (loss) gains, ongoing reduction in depreciation expenses, and reduced asset retirement

obligations, SaskPower should be able to match its balance sheet forecasts with a reduced rate increase of 2% effective January 1, 2005 (from 9% to 7%).

We would further suggest that the 1.8% increase proposed for September 17, 2005 be conditional subject to financial need being demonstrated in the second quarter financial statements of 2005. The biggest risk to SaskPower financial statements is the pricing assumptions for natural gas prices. Since 25% of SaskPower generation is natural gas fired, any variances from the forecasted assumptions of \$6.50 GJ in 2004, \$6.70 GJ in 2005, and \$6.00 GJ in 2006 will have a material impact on SaskPower's financial results in each of these years. Natural gas price decreases will provide SaskPower with positive results while the reverse could have a detrimental impact of SaskPower's net income.

SaskPower's increased reliance on the power, oilfield, and reseller for load growth (when residential, farm, and commercial loads are declining) will continue to put upward pressure on rates. These customers (power, oilfield, and reseller), on average, pay 5¢/KWhr. Loss of growth is taking place in customers paying an average of 9¢/KWhr. SaskPower's average F&PP costs exceeds 2.5¢/KWhr and its total expense are 7¢/KWhr. Consequently, an annual load growth of 400 GWhr is occurring at a net loss of 2¢/KWhr or \$10 M/year.

Unless SaskPower can reduce its average cost of production (or even its incremental cost of production), average annual increases (not including inflation) of 1% are a must. Indeed, SaskPower has identified in its 2005 Business Plan possible rate increases of 1.4% in 2006, 1.1% in 2007, 1.5% in 2008, and 2.1% in 2009. Whether or not these forecasts materialize will depend on a wide matrix of issues, it is a significant challenge to SaskPower to limit future rate increases to less than inflation.

7. COST OF SERVICE ISSUES

7.1. Cost of Service Methodology

SaskPower's Cost of Service Methodology has been developed over time and has been reviewed by an Independent Consultant (Foster Associates) in 2000 and again in 2002. According to SaskPower, the most significant change from a cost of service point of view was to use a single (one hour) system winter coincident peak (called 1-CP) to define demand charges for all classes. Only customer transformers continue to be cost allocated on the basis of class maximum demand.

Further, SaskPower has indicated the impacts of the 1-CP allocation process are:

- A reduction of allocated costs to low load factor customers such as residential, commercial, and farm (rural residential probably gained the most).
- An increase in allocated costs to higher load factor power customers, oilfields, and resellers. (The reseller class probably had the biggest negative impact, followed by oilfields, and then power customers).

A cursory comparison of the class coincidental peak demands and non-coincident peak demands supports the above indications. It also suggests that the change to 1-CP improved the revenue to revenue requirement ratios in the same manner: favourably for low load factor customers and unfavourably for high load factor customers.

7.2. Revenue to Revenue Requirement Ratios

Table 7.1 illustrates the historical (1999-2002) and 2004-2005 forecast of revenue to revenue requirement ratios (R/RR).

Table 7.1: Historical and Projected Class R/RR Ratios
(restated using 10-Class Structure)

Class	1999	2000	2001	2002	2004 (before)	2004 (after)	2005 (after)
Urban Residential	0.96	0.94	0.99	0.98	0.98	0.98	0.97
Rural Residential	0.86	0.90	0.91	0.92	0.95	0.97	0.97
Farm	0.92	0.92	0.99	1.03	1.02	0.99	0.99
Urban Commercial	1.06	1.03	1.02	1.05	1.03	1.02	1.02
Rural Commercial	0.93	0.92	0.97	1.04	1.02	1.02	1.02
Power Rate	1.02	1.04	0.99	1.02	0.95	1.00	1.01
Power Contract	1.00	1.04	1.01	0.94	1.00	1.00	1.00
Oilfield	1.12	1.12	1.07	1.03	1.02	1.02	1.03
Street Lights	1.23	1.27	1.14	1.18	1.11	1.03	1.02
Reseller	0.99	0.95	0.91	1.00	0.95	1.00	1.00
F&PP Less Export Revenue	208.3	256.2	359.0	327.5	412.8	412.8	446.9
Reseller CP L.F.	67%	67%	70%	74%	70%	70%	70%

* 2003 – no cost of service study

What is apparent from this table is that certain classes chronically under-contribute to SaskPower's cost of operations. Most notable of these are the rural and urban residential. On the other hand, urban commercial, power, oilfield, and street lights have typically over-contributed.

SaskPower has stated that its long-term target is to have the R/RR ratio for residential and farm customers between 0.95 and 1.00 and all other classes between 1.00 and 1.05. This long-term target policy perpetrates an inherent bias to cross subsidization between and within customer classes.

Because of their particular sensitivity to fuel and purchased purchase costs (net of export revenue), the power rate, power contract, and reseller classes have highly variable R/RR's. The reseller class is also strongly affected by the peak demand which typically occurs in the summer, but can also occur during the winter.

7.3. Cost Allocation Issues

The SaskPower cost allocation process also defines the costs associated with the generation, transmission, and distribution functions within the utility based on Tables 7.2 and 7.3. Table 7.2 shows these in relative percentages.

Table 7.2: SaskPower Generation, Transmission, and Distribution Costs by Class

Class	Generation		Transmission	Distribution
	Total %	Net F&PP*		
Urban Residential	57	(25)	6	37
Rural Residential	51	(21)	6	43
Total Residential	56	(25)	6	38
Total Farms	58	(27)	6	36
Urban Commercial	68	(33)	7	25
Rural Commercial	63	(29)	7	30
Total Commercial	67	(32)	7	25
Power Published Rates	85	(44)	9	6
Power Contract	90	(47)	9	1
Power Total	89	(46)	9	2
Oilfields	66	(34)	6	28
Reseller Total	89	(42)	10	0
Street Light Total	24	(10)	3	73
Overall	70	(34)	7	23

* Net F&PP is gross fuel and power purchase minus exports and the above percentages estimated on the basis of recent forecasts (2004).

7.4. Revenue to Revenue Requirement Comparisons

SaskPower's cost of service methodology has been built around a single coincident peak (1-CP) allocation process. This effectively assigns costs on the class peak load contribution to the total system peak load. It also tends to assign most, or all, transmission and distribution costs and the fixed generation costs to a demand or customer function. Only the variable costs (fuel and purchased power and OM&A) are considered to be energy functions.

As illustrated in Tables 7.2, 7.4, and 7.5, there is a considerable difference between SaskPower's revenue collection process (billings for customer, demand, and energy) and its allocated revenue requirements. Specifically, the functionally allocated billing revenue and revenue requirements for each class are shown in Table 7.3.

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Rural Residential	0.86	0.90	0.91	0.92	0.95	0.97	0.97
Farm	0.92	0.92	0.99	1.03	1.02	0.99	0.99
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Rural Commercial	0.93	0.92	0.97	1.04	1.02	1.02	1.02
Power Rate	1.02	1.04	0.99	1.02	0.95	1.00	1.01
Power Contract	1.00	1.04	1.01	0.94	1.00	1.00	1.00
Oilfield	1.12	1.12	1.07	1.03	1.02	1.02	1.03
Street Lights	1.23	1.27	1.14	1.18	1.11	1.03	1.02
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Total Commercial	67	(32)	7	25
Power Published Rates	85	(44)	9	6
Power Contract	90	(47)	9	1
Power Total	89	(46)	9	2
Oilfields	66	(34)	6	28
Reseller Total	80	(42)	10	0
Street Light Total	24	(10)	3	73
Overall	70	(34)	7	23

* Net F&PP is gross fuel and power purchase minus exports and the above percentages estimated on the basis of recent forecasts (2004).

7.4. Revenue to Revenue Requirement Comparisons

SaskPower's cost of service methodology has been built around a single coincident peak (1-CP) allocation process. This effectively assigns costs on the class peak load contribution to the total system peak load. It also tends to assign most, or all, transmission and distribution costs and the fixed generation costs to a demand or customer function. Only the variable costs (fuel and purchased power and OM&A) are considered to be energy functions.

As illustrated in Tables 7.2, 7.4, and 7.5, there is a considerable difference between SaskPower's revenue collection process (billings for customer, demand, and energy) and its allocated revenue requirements. Specifically, the functionally allocated billing revenue and revenue requirements for each class are shown in Table 7.3.

Table 7.3: Summary of Billing Revenue and Revenue Requirement

Class	Actual Billing Revenue			Allocated Revenue Requirement		
Residential - Energy Meters Only	Customer	\$56.47 M	20%	versus	\$54.93 M	20%
	Demand	0	0	versus	\$133.88 M	49%
	Energy	\$215.80 M	80%	versus	\$83.50 M	31%
Farm - Primarily Energy Meters	Customer	\$20.49 M	16%	versus	\$17.91 M	14%
	Demand	\$1.47 M	<1%	versus	\$65.29 M	52%
	Energy	\$103.18 M	83%	versus	\$41.92 M	34%
Commercial - Demand/Energy Metered (mostly energy only)	Customer	\$14.38 M	6%	versus	\$18.13 M	7%
	Demand	\$42.12 M	16%	versus	\$135.03 M	53%
	Energy	\$199.38 M	78%	versus	\$102.62 M	40%
Power - Demand/Energy Metered	Customer	\$2.67 M	1%	versus	\$4.76 M	2%
	Demand	\$43.05	13%	versus	\$130.10 M	40%
	Energy	\$277.40 M	86%	versus	\$188.25 M	58%
Oilfields - Demand/Energy Metered (contracts called for energy)	Customer	\$5.69 M	4%	versus	\$13.63 M	8%
	Demand	\$50.33 M	30%	versus	\$82.21 M	50%
	Energy	\$109.95 M	66%	versus	\$70.13 M	42%
Reseller - Demand/Energy Metered	Customer	\$0.23 M	<1%	versus	\$0.23 M	<1%
	Demand	\$31.53 M	45%	versus	\$32.93 M	47%
	Energy	\$37.92 M	54%	versus	\$36.52 M	52%
Street Lights - Unmetered	Customer	\$13.22 M	100%	versus	\$8.58 M	60%
	Demand	0	0	versus	\$2.95 M	25%
	Energy	0	0	versus	\$1.70 M	15%

The foregoing illustrates that in the absence of demand meters, residential and farm classes have average energy rates that account for about 80% of their electricity billing. Commercial and power classes also have average energy rates that account for about 80% of their bills, in spite of revenue requirements that are more than 40% demand. This would suggest a directional shift away from energy and towards demand billing. Reseller and, to a lesser extent, oilfield classes appear to have a more appropriate balance between demand and energy billing rates.

Overall, there appears to be some need to reconcile the above differences while maintaining the appropriate signals for peak demand constraints and energy conservation.

7.5. Revenue Requirement Calculations

SaskPower's revenue requirement is determined on an overall basis by multiplying its (\$) rate base (RB) by its (%) return on rate basis (RORB), and then adding its annual (\$) variable expenses (e.g., fuel and purchased power, OM&A, etc.). The RORB is apparently determined from the previous actual year cost of service analysis and employing the reverse calculation. For 2004 and 2005, the overall RORB was calculated at 9.51% to 9.20%, respectively.

The individual class RORBs are calculated on a similar basis:

Table 7.4: SaskPower Customer Class RORB

	2004	2005
Residential - Urban	8.63%	8.21%
Residential - Rural	8.58%	8.28%
Farm	9.28%	8.69%
Commercial - Urban	10.24%	9.90%
Commercial - Rural	10.15%	9.88%
Power - Published Rate	9.44%	9.49%
Power - Contract	9.36%	9.09%
Oilfields	10.26%	10.13%
Reseller	9.58%	9.17%
Street Lighting	10.68%	10.03%
Overall	9.51%	9.20%

The acceptance of different RORBs for the various classes significantly influences the assignment of costs. Because the % RORBs are based on prior year results, there is a bias towards continuation of the prevailing revenue over revenue requirement ratios. As a result, the R/RR ratios tend to remain in the 0.95 to 1.00 range for residential and commercial, and remain in the 1.00 to 1.05 range for power and oilfields customers. While these results would appear to have been justified on a societal value basis rather than on a true equal cost for equal service basis, a move towards a target of 1.00 for all classes is the industry norm and one that SaskPower should strive for in its rate design on a going forward basis. To do otherwise, perpetrates an inherent benefit to some customers at a continued cost to other customers. This is a practice that is difficult to justify as "fair and just", especially if this inherent cross subsidization continues for a number of years. The move towards a R/RR of 1.0 may produce rate shock, unless a long-term strategy is developed, as was the approach started by SaskPower in 2001.

Table 7.3: Summary of Billing Revenue and Revenue Requirement

Class	Actual Billing Revenue			Allocated Revenue Requirement		
Residential - Energy Meters Only	Customer	\$56.47 M	20%	versus	\$54.93 M	20%
	Demand	0	0	versus	\$133.88 M	49%
	Energy	\$215.80 M	80%	versus	\$83.50 M	31%
Farm - Primarily Energy Meters	Customer	\$20.49 M	16%	versus	\$17.91 M	14%
	Demand	\$1.47 M	<1%	versus	\$65.29 M	52%
	Energy	\$103.18 M	83%	versus	\$41.92 M	34%
Commercial - Demand Energy Metered (mostly energy only)	Customer	\$14.38 M	6%	versus	\$18.13 M	7%
	Demand	\$42.12 M	16%	versus	\$135.03 M	53%
	Energy	\$199.38 M	78%	versus	\$102.62 M	40%
Power - Demand Energy Metered	Customer	\$2.67 M	1%	versus	\$4.76 M	2%
	Demand	\$43.05	13%	versus	\$130.10 M	40%
	Energy	\$277.40 M	86%	versus	\$188.25 M	58%
Oilfields - Demand Energy Metered (contracts called for energy)	Customer	\$5.69 M	4%	versus	\$13.63 M	8%
	Demand	\$50.33 M	30%	versus	\$82.21 M	50%
	Energy	\$109.95 M	66%	versus	\$70.13 M	42%
Reseller - Demand Energy Metered	Customer	\$0.23 M	<1%	versus	\$0.23 M	<1%
	Demand	\$31.53 M	45%	versus	\$32.93 M	47%
	Energy	\$37.92 M	54%	versus	\$36.52 M	52%
Street Lights - Unmetered	Customer	\$13.22 M	100%	versus	\$8.58 M	60%
	Demand	0	0	versus	\$2.95 M	25%
	Energy	0	0	versus	\$1.70 M	15%

The foregoing illustrates that in the absence of demand meters, residential and farm classes have average energy rates that account for about 80% of their electricity billing. Commercial and power classes also have average energy rates that account for about 80% of their bills, in spite of revenue requirements that are more than 40% demand. This would suggest a directional shift away from energy and towards demand billing. Reseller and, to a lesser extent, oilfield classes appear to have a more appropriate balance between demand and energy billing rates.

Overall, there appears to be some need to reconcile the above differences while maintaining the appropriate signals for peak demand constraints and energy conservation.

7.5. Revenue Requirement Calculations

SaskPower's revenue requirement is determined on an overall basis by multiplying its (\$) rate base (RB) by its (%) return on rate basis (RORB), and then adding its annual (\$) variable expenses (e.g., fuel and purchased power, OM&A, etc.). The RORB is apparently determined from the previous actual year cost of service analysis and employing the reverse calculation. For 2004 and 2005, the overall RORB was calculated at 9.51% to 9.20%, respectively.

The individual class RORBs are calculated on a similar basis:

Table 7.4: SaskPower Customer Class RORB

	2004	2005
Residential - Urban	8.63%	8.21%
Residential - Rural	8.58%	8.28%
Farm	9.28%	8.69%
Commercial - Urban	10.24%	9.90%
Commercial - Rural	10.15%	9.88%
Power - Published Rate	9.44%	9.49%
Power - Contract	9.36%	9.09%
Oilfields	10.26%	10.13%
Reseller	9.58%	9.17%
Street Lighting	10.68%	10.03%
Overall	9.51%	9.20%

The acceptance of different RORBs for the various classes significantly influences the assignment of costs. Because the % RORBs are based on prior year results, there is a bias towards continuation of the prevailing revenue over revenue requirement ratios. As a result, the R/RR ratios tend to remain in the 0.95 to 1.00 range for residential and commercial, and remain in the 1.00 to 1.05 range for power and oilfields customers. While these results would appear to have been justified on a societal value basis rather than on a true equal cost for equal service basis, a move towards a target of 1.00 for all classes is the industry norm and one that SaskPower should strive for in its rate design on a going forward basis. To do otherwise, perpetrates an inherent benefit to some customers at a continued cost to other customers. This is a practice that is difficult to justify as "fair and just", especially if this inherent cross subsidization continues for a number of years. The move towards a R/RR of 1.0 may produce rate shock, unless a long-term strategy is developed, as was the approach started by SaskPower in 2001.

If RORBs were applied at the same rate to each of the classes (see Appendix C), the R/RR ratios for 2004 would be as follows:

Table 7.5: R/RR Ratios* Calculated Using One (An Average) RORB

	2004 Revenue (Existing Rates)	2004 Revenue (Proposed Rates)
Residential - Urban	.90	.98
Residential - Rural	.86	.97
Farm	.93	.99
Commercial - Urban	.94	1.02
Commercial - Rural	.93	1.02
Power - Published Rates	.88	1.00
Power - Contract Rates	.93	1.00
Oilfields	.93	1.02
Reseller	1.03	1.03
Street Lighting	.88	1.00

* These R/RR ratios have not been adjusted to provide a system average of unity

The foregoing confirms that SaskPower has a rate policy that subsidizes residential and farm class customers at the expense of all other customers. By logical extension, this would mean that the 2004 and 2005 rate proposals are perpetuating a rate imbalance/inequity.

About 80% of SaskPower's revenue requirement under the energy function relates to net fuel and purchased power. Put another way, much of the financial need for the 9% system average rate increase is related to power production cost increases, primarily due to higher fuel and purchased power expenses. This translates into the energy percentages of total class revenue requirements shown in Table 7.6.

Table 7.6: Cost of Energy (F&PP) Component of Revenue Requirements

	2004	2005
Residential - Urban	25%	26%
Residential - Rural	23%	22%
Farm	27%	28%
Commercial - Urban	29%	33%
Commercial - Rural	29%	30%
Power - Published Rate	43%	42%
Power - Contract	59%	48%
Oilfields	34%	35%
Reseller	40%	40%
Street Lighting	10%	10%

From 1999-2003, about two-thirds of expense increases over that time period have been in the fuel and purchased power category. For 2004-2005, fuel and purchased power expenses, as a percentage of the proposed rate increases, continue that trend.

8. RATE DESIGN

8.1. Pass Through of Fuel and Power Purchase Costs

As a test of the cost causation principal, it is a reasonable suggestion that the portion of the proposed rate increase that relates to Fuel and Power Purchases (F&PP) should be allocated to each class on the basis of relative net F&PP components of revenue requirements. F&PP constitutes about 2/3 of SaskPower's cost increases since 1999 relative to the proposed 9% rate increase, this would result in the factors in Table 8.1 being applied to the proposed rate increase to a hypothetical 6% F&PP component. All customers share in power production costs, but for large power class customers, it is 80 to 90% of their total operation costs. Hence, fuel and power purchase cost increases have a dramatic effect on their ratio.

Table 8.1: Fuel and Purchased Power Portion of Rate Increase

Class	Allocation Factor	Fuel and Purchased Power Component (%)
Urban Residential	0.75	4.5%
Rural Residential	0.63	3.8%
Farms	0.81	4.9
Urban Commercial	1.00	6.0
Rural Commercial	0.87	5.2
Power - Published Rates	1.32	8.0
Power - Contract	1.41	8.5
Oilfields	1.00	6.0
Reseller	1.36	8.1
Street Lights	0.30	1.8

* Assumes 2/3 (or 6%) of requested 2004 rate increase relates to F&PP increases and the balance (3%) could be applied on an asset basis or rate base (primarily to cover increased depreciation and finance charges). To rebalance rates or separate components totalling 0% would be required.

Table 8.2: Alternative Overall Rate Increase Allocations (for a 9% average increase in rates)

Class	Fuel and Purchased Power Component (%)	Rate Base Component (%)	R/RR Adjustment (%)	Total Increase (%)
Urban Residential	4.5	+4.0	-	8.5
Rural Residential	3.8	+4.0	+2.0	12.0
Farms	4.9	+4.0	-1.0	8.9
Urban Commercial	6.0	+4.0	-2.0	8.0
Rural Commercial	5.2	+4.0	-1.0	8.2
Power - Published Rates	8.0	+2.0	+2.0	12.0
Power - Contract	8.5	+2.0	-	10.5
Oilfields	6.0	+4.0	-1.0	9.0
Reseller	8.1	+2.0	+2.0	12.1
Street Lights	1.8	0	-2.0	-0.2
Average	6.0	3.0	0	

If RORBs were applied at the same rate to each of the classes (see Appendix C), the R/RR ratios for 2004 would be as follows:

Table 7.5: R/RR Ratios* Calculated Using One (An Average) RORB

	2004 Revenue (Existing Rates)	2004 Revenue (Proposed Rates)
Residential - Urban	.90	.98
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Street Lighting	.88	1.00

* These R/RR ratios have not been adjusted to provide a system average of unity

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Rural Residential	3.8	+4.0	+2.0	12.0
Farms	4.9	+4.0	-1.0	8.9
Urban Commercial	6.0	+4.0	-2.0	8.0
Rural Commercial	5.2	+4.0	-1.0	8.2
Power - Published Rates	8.0	+2.0	+2.0	12.0
Power - Contract	8.5	+2.0	--	10.5
Oilfields	6.0	+4.0	-1.0	9.0
Reseller	8.1	+2.0	+2.0	12.1
Street Lights	1.8	0	-2.0	-0.2
Average	6.0	3.0	0	

SaskPower has indicated that OM&A/Depreciation/Finance Charges/Taxes/etc. also contribute to its need for enhanced revenues in 2004 and 2005. About 1/3 of the increase in revenue requirement is estimated to relate to the foregoing factors. Cost allocation of these should not be on an across-the-board basis because Distribution costs, which are a significant element of allocated costs for residential/farm and commercial, are minor items in the power/oilfields and reseller classes.

Rebalancing to improve R/RR ratios should be an annual exercise to ensure there are no inherent biases that exist in the application of the cost of service.

8.2. Definition of Other Costs

SaskPower's rate base is made up of:

- 53% generation assets.
- 13% transmission assets.
- 33% distribution assets.
- 1% customer service assets.

This differs somewhat from its annual expense allocation of:

- 76% generation (58% excluding F&PP).
- 5% transmission (9% excluding F&PP).
- 13% distribution (23% excluding F&PP).
- 6% customer service (11% excluding F&PP).

The total revenue requirement (excluding F&PP) allocation of:

- 55% generation (applied on an across the board basis).
- 11% transmission (dates).
- 27% distribution (applied to residential/farm/commercial/oilfield only).
- 7% customer service (applied on an across the board basis).

8.3. Rate Rebalancing

The information supplied by SaskPower in its Application allows one to confirm the scale of proposed rate increases and directionally determine the impacts to various customer classes and, to a lesser degree, possibly individual customers. It does not however provide sufficient detail on specific impacts or future positive and negative impacts to confirm a definitive answer to the question of "fair and reasonable."

It is possible to selectively offer opinions on the directional impacts on customers and their energy bills. However, this in no way suggests that this review has had sufficient information and time to fully digest the scope of SaskPower's rate rebalancing exercise or its longer term impacts. Impressions gained from what has been a review with a limited scope are:

- The rate rebalancing process (over the last five years) undertaken by SaskPower has addressed some short-term imbalances, but has perpetuated long-term imbalances between residential/farm/commercial and industrial or large (power/oilfield/reseller) customers.
- Changes to the COS process have favourably impacted residential/farm/commercial customers and may have provided continued support for the subsidization of these classes.
- Changes to the COS process have unfavourably impacted power and reseller groups by increasing their cost share.
- Changes to the billing rates (cost shifts between demand and energy) appear to have been somewhat arbitrarily determined and reflect a continuation of historical revenue to revenue requirement ratios.
- Using different RORBs for different classes of customers is not in the spirit of typical cost of service methodologies.

SaskPower's intent was to complete its rate rebalancing process in 2004/05. Changes to the COS process and a better appreciation of the impact of the role that net fuel and purchased power plays in the revenue requirement suggests that the cost allocation will continue to be adjusted annually. Thus, the need for an annual cost of service study. SaskPower has confirmed that it does not provide detailed cost of service model information to customers because much of the information is commercially sensitive in nature and because of privacy concerns. While SaskPower has provided summaries of their detailed cost of service results by customer classes to the Panel and Dillon, and would like the Panel and Dillon to provide an independent ruling on the fairness and reasonableness of SaskPower's cost of service studies, this is not possible due to time constraints and the requisite work involved, and as it was not within the mandate of this consultant to do so. Until a complete cost of service study is filed and reviewed, it is beyond our ability on the basis of information provided to suggest that the 2005 rebalancing adjustment be undertaken or implemented as submitted.

8.4. Comparative Rate Issues

A comparison to rates in other jurisdictions is found in Appendix D shows further movement away from a competitive position. This is due in part to the fact that SaskPower's customers are geographically spread wider apart throughout the province than in any other province, and as such, serve fewer customers per kilometre of distribution and transmission line.

9. SUMMARY AND RECOMMENDATIONS ON COST OF SERVICE AND RATE DESIGN ISSUES

9.1. Summary

SaskPower's current Cost of Service Methodology, in keeping with the cost causation principle, has moved toward cost sharing on the basis of contribution to the total system peak (e.g., a 1-CP approach). This approach tends to assign costs to each customer class not on a customer's maximum demand, but rather on the basis of a customer's share during the system maximum demand.

It also allocates fixed costs required to build facilities to demand, and variable costs such as fuel and power purchases plus operating, maintenance, and administration costs primarily to energy. This does not appear consistent with SaskPower's billing practices where energy charges substantially exceed the allocated energy costs, and demand (or customer service) charges do not cover the greater part of the demand cost allocations. However, the foregoing is consistent with most other utilities. Metering of energy is relatively simple and as such, all customers have energy measurements. However, it is only larger customers, such as power and resellers that have demand meters; residential and small commercial customers do not.

Because demand cost allocations are essentially fixed (by previous capital/debt levels), cost recoveries via demand charges should rise at relatively predictable rates. In SaskPower's system, net fuel and power purchase costs (80% of variable costs) tend to fluctuate considerably. Consequently, these can be as low as 25% and as high as 50% of total annual expenses.

If variable costs (fuel and purchased power and operating, maintenance, and administration) were typically within a narrow range, the cost of service model would reliably define the class Revenue to Revenue Requirement ratios. This is not the case for SaskPower. The variable costs tend to differ between 85% and 115% of average on a year to year basis, resulting in R/RR ratios that also fluctuate significantly on a year-to-year basis.

It could be argued that the cost of service model is useful in dealing with the fixed cost component, but not the variable cost component. This logically suggests variable costs should be treated as pass-through costs and that only fixed costs be allocated on a system coincident peak basis.

SaskPower's rate design is focussed on high energy component charges and somewhat lower demand/customer components charges. This approach supports energy conservation and because the system is primarily energy (price) constrained, it does not necessarily favour low load factor customers. It is also not entirely supportive of reducing annual consumption levels.

If SaskPower were to separately deal with flow through net fuel and purchased power costs and fixed (embedded) asset costs, there would be a shift from favouring higher load factor customers to favouring lower load factor customers. Overall, there could be a better cost causation principle adherence.

A significant advantage of the flow through approach would be reduced variability in R/RR ratios and hence, an ability to predictably adjust/rebalance rates to achieve R/RR ratios near unity.

9.2. Recommendations on Cost of Service and Rate Design

An embedded cost of service (COS) study begins with a utility's total costs (operating expenses, debt service, return on equity, taxes, depreciation, etc.) for a particular test year and uses a series of steps to identify each customer classes' share of various cost components. Because most of a utility's total cost depends on investment decisions made in the past, COS studies are typically designed to reflect the causes of those historical costs. COS studies are undertaken with the goal of creating an equitable allocation of historical total costs to various customer groups and individual customers without cross-subsidies.

As mentioned earlier, the scope of this review does not lend itself to a definitive conclusion on the appropriateness of the cost of service model and its application by SaskPower. A much more detailed analysis should be undertaken outside the scope of this review. A separate application and review should be carried out early in 2005 before the 2005 rate increases are confirmed and implemented. The very considerable ratepayer and public expressed concerns could be dealt with during that review.

The specific areas that may need further (later) attention by the Panel are:

- Net fuel and purchased power allocations to different classes.
- Allocation of rate base and in particular distribution rate base to various classes.
- Target ratios for revenue to revenue requirements and the subsequent return on rate base percentages for each class.
- Demand/energy/customer components of revenue requirements compared to billing revenues.

SaskPower's proposed rate rebalancing (at 9% and 1.8% rate increases) may or may not be appropriate given the large sensitivity of R/RR ratios to year-to-year changes in the net fuel and power purchases.

The Panel, in directing SaskPower to modify the overall requested rate increases, could suggest:

- Proportional reductions to individual class increases.
- A single across-the-board increase to all classes.
- A specific rate increase (but with reduced variability) for each class.

- Maximum deviations from average class increases or maximum concern/minimum percentage increases in each class.

There are also timing issues that may need to be addressed for modified average rate increases. For example:

- The 9% increase for the September to December 2004 period could be confirmed or adjusted with refunds if necessary or left in place with a greater adjustment being made for the January to September 2005 period.
- The 1.8% increase in September 2005 could be adjusted or made conditional on financial results obtained by SaskPower at mid-year 2005.

APPENDIX A



Table A-1: Total System Load Forecast*

Year	Power ⁽¹⁾		Oilfields		Commercial		Residential		Farm		Reseller ⁽²⁾		Corporate Use		Total Sales		Losses ⁽³⁾	Total Energy ⁽⁴⁾ Requirements GWhr	Seasonal Peak Demand (MW)
	GWhr	# of Customers	GWhr	# of Customers	GWhr	# of Customers	GWhr	# of Customers	GWhr	# of Customers	GWhr	# of Customers	GWhr	# of Customers	GWhr	# of Customers			
1993	4,445.0	37	812.8	8,314	3,148.2	50,108	2,226.4	284,476	1398.7	69,813	1074.2	2	70.4	195	13,175.7	412,945	1,513.0	14,688.7	2,482
1994	4,734.1	46	928.5	8,901	3,165.9	49,922	2,252.0	284,763	1418.6	69,413	1114.4	2	81.8	203	13,695.3	413,250	1,706.8	15,402.1	2,477
1995	5,134.1	39	1,007.9	8,995	2,959.8	50,652	2,274.7	286,505	1342.9	69,036	1133.7	2	90	248	13,943.1	415,477	1,754.7	15,697.8	2,624
1996	5,297.9	40	1,142.3	9,401	2,992.5	51,114	2,375.9	288,087	1450.4	68,581	1162.1	2	89.7	232	14,510.8	417,457	1,846.5	16,357.3	2,682
1997	5,927.9	40	1,326.2	10,010	2,958.0	51,307	2,350.0	290,037	1473.5	68,501	1161.6	2	98.9	228	15,296.0	420,125	1,665.3	16,961.3	2,799
1998	6,250.1	42	1,502.0	10,584	3,076.0	51,488	2,266.1	293,119	1242	68,286	1191.1	2	80	224	15,607.4	423,745	1,834.4	17,441.8	2,800
1999	6,009.2	45	1,578.1	10,521	2,975.5	51,737	2,317.0	295,874	1292.8	67,690	1195.5	2	100	220	15,468.1	426,089	1,772.8	17,240.9	2,709
2000	6,221.8	46	1,761.2	10,618	3,081.2	51,970	2,343.6	298,071	1304.8	67,453	1239.5	2	115	213	16,067.0	428,373	1,882.1	17,949.1	2,822
2001	6,016.2	48	1,869.0	10,787	3,052.6	52,112	2,386.2	299,313	1385.7	67,572	1246	2	112	210	16,067.7	430,044	1,705.6	17,773.3	2,688
2002	5,852.7	48	1,970.2	10,951	3,080.9	51,963	2,456.9	300,763	1366.9	67,355	1262.8	2	125.6	209	16,116.0	431,291	1,789.3	17,905.3	2,800
2003	6,278.8	52	2,081.8	11,058	3,150.5	52,175	2,508.9	302,897	1441.9	67,025	1287.3	2	122.3	209	16,871.6	433,418	1,676.9	18,548.5	2,930
2004	6,565.5	52	2,182.2	11,294	3,109.9	52,310	2,480.3	304,818	1429.3	66,114	1292.6	2	126.5	209	17,186.3	434,799	1,743.4	18,929.7	2,976
2005	6,788.5	52	2,285.2	11,547	3,122.1	52,459	2,493.8	306,219	1432.5	66,101	1300	2	126.7	209	17,548.7	436,589	1,773.4	19,322.1	3,037
2006	7,165.2	52	2,497.1	11,800	3,133.5	52,596	2,520.3	308,373	1419.5	65,891	1314.8	2	127	209	18,177.4	438,923	1,816.5	19,993.9	3,132
2007	7,325.2	52	2,663.9	12,053	3,133.2	52,720	2,548.5	310,709	1432	65,614	1328.9	2	127.2	209	18,558.9	441,359	1,855.7	20,414.7	3,198
2008	7,437.2	52	2,871.2	12,306	3,144.7	52,857	2,583.4	312,990	1441.5	65,356	1347.6	2	127.6	209	18,953.2	443,772	1,875.5	20,828.7	3,244
2009	7,539.7	52	3,011.1	12,559	3,155.7	52,984	2,604.0	315,216	1447.8	65,113	1358.6	2	127.8	209	19,244.6	446,135	1,910.0	21,154.6	3,296
2010	7,805.5	53	3,176.1	12,813	3,166.4	53,106	2,631.3	317,385	1448.5	64,889	1373.3	2	126.4	209	19,727.6	448,457	1,926.6	21,654.2	3,365
2011	7,850.2	53	3,350.1	13,066	3,177.9	53,242	2,658.4	319,509	1444.9	64,676	1387.6	2	126.7	209	19,995.9	450,758	1,959.8	21,955.7	3,414
2012	7,936.8	53	3,544.7	13,319	3,189.4	53,377	2,691.3	321,432	1447.6	64,471	1405.3	2	127.1	209	20,342.3	452,863	2,005.4	22,347.7	3,464
2013	7,920.6	53	3,644.6	13,572	3,200.6	53,507	2,709.7	323,347	1452.5	64,267	1415.4	2	127.3	209	20,470.7	454,957	1,993.0	22,463.7	3,482
2014	7,964.7	53	3,757.6	13,825	3,211.6	53,634	2,735.5	325,261	1452.2	64,060	1429.2	2	127.5	209	20,678.5	457,043	2,036.3	22,714.7	3,524

Growth Rates (%)

1998-2003	0.1%	4.4%	6.7%	0.9%	0.5%	0.3%	2.1%	0.7%	3.0%	-0.4%	1.6%	0.0%	8.9%	-1.4%	1.6%	0.5%	-1.8%	1.2%	0.9%
1993-1998	7.1%	2.6%	13.1%	4.9%	-0.5%	0.5%	0.4%	0.6%	-2.3%	-0.4%	2.1%	0.0%	2.6%	2.8%	3.4%	0.5%	3.9%	3.5%	2.4%
1993-2003	3.5%	3.5%	9.9%	2.9%	0.0%	0.4%	1.2%	0.6%	0.3%	-0.4%	1.8%	0.0%	5.7%	0.7%	2.5%	0.5%	1.0%	2.4%	1.7%
2004-2009	2.8%	0.0%	6.7%	2.1%	0.3%	0.3%	1.0%	0.7%	0.3%	-0.3%	1.0%	0.0%	0.2%	0.0%	2.3%	0.5%	1.8%	2.2%	2.1%
2004-2014	2.0%	0.2%	5.6%	2.0%	0.3%	0.3%	1.0%	0.7%	0.2%	-0.3%	1.0%	0.0%	0.1%	0.0%	1.9%	0.5%	1.6%	1.8%	1.7%

* Seasonal Peak Demand refers to heating season (i.e., 1998-1998/99).

* Total Energy Requirements refers to domestic load only.

- (1) Starting in 2003, the Key Account customer category has been reclassified as "Power Accounts." Power Accounts contain all customers who qualify for the Power Class energy rates, or have negotiated individual contracts. As a result, the number of customers has been restated to reflect those large commercial customers who have been moved to either the Power Class or Oilfield category. For comparison purposes, historical data has been restated from 1992 onward.
- (2) Starting in 1995, the Bulk customer category name has been changed to Reseller.
- (3) Losses are calculated by taking the difference between Total Energy Requirements and Total Sales. The Total Sales and Total Energy Requirements are forecasted numbers.
- (4) All forecasted energy and peak values are normalized to reflect 30-year average weather patterns.

* 2004 Load Forecast, March 2004

APPENDIX B

Figure B-1: Saskatchewan River (The Pas) Flows
Total Hydro Generation

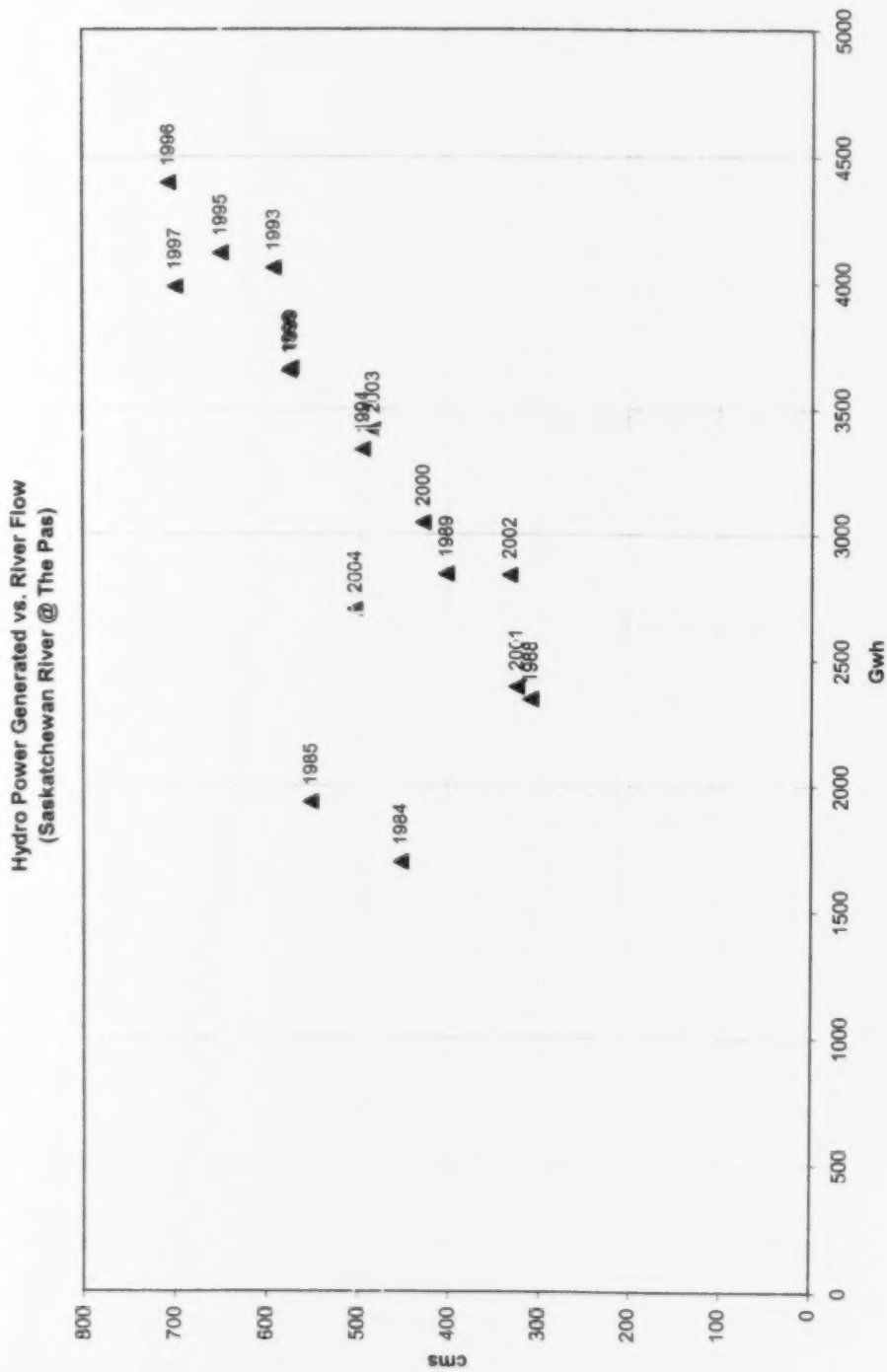


Table B-1:
Comparison of Hydro Generation and River Flows

	Saskatchewan River		Churchill River		Saskatchewan & Church River	
	System Generation	Flows @ The Pas	Generation	Annual Flows	Generation	Annual Flows
	GWhr	(cms)	GWhr	(cms)	GWhr	(cms)
1984	928	451	766	736	1694	1187
1985	1170	549	762	746	1933	1295
1986		638		771		1409
1987		468		844		1312
1988	1594	308	735	697	2343	1005
1989	2060	400	719	655	2841	1055
1990		666		734		1400
1991		562		741		1303
1992		365		801		1166
1993		589		603	4059	1192
1994		491		573	3337	1064
1995		647		625	4118	1272
1996	3539	704	688	745	4397	1449
1997		697		1129	3986	1826
1998		572		989	3650	1561
1999		570		655	3660	1225
2000		425		857	3046	1282
2001		323		783	2391	1106
2002		330		729	2836	1059
2003		480		500	3416	980
2004		500		700	2700	1200



APPENDIX C

Table C-1: 2004 Revenue Requirements (Existing Rates)
Variable Class RORB

Customer Class	Generation		Transmission		Distribution		Customer Service		Total Revenue Requirement	RORB	2004 Revenue (Existing Rates)	R/RR*
	Demand	Energy	Demand		Demand	Customer	Customer	Customer				
Total Residential	69,391,465	83,502,427	17,383,333		47,067,807	22,608,656	32,328,883		272,282,573	8.62%	248,728,127	0.91
Urban Residential	57,685,906	70,714,783	14,454,445		36,837,276	16,726,933	27,915,022		224,334,365	8.63%	206,229,237	0.92
Rural Residential	11,705,559	12,787,644	2,928,889		10,230,532	5,881,723	4,413,862		47,948,208	8.58%	42,428,890	0.88
Farms	30,497,033	41,917,581	7,758,997		27,035,224	10,304,380	7,601,412		125,114,627	9.28%	116,928,281	0.93
Total Commercial	68,603,665	102,619,164	17,820,234		48,605,532	10,692,596	7,441,203		255,782,394	10.22%	235,746,188	0.92
Urban Commercial	51,352,642	79,144,957	13,349,428		33,908,787	7,185,724	5,778,162		190,719,700	10.24%	176,590,589	0.93
Rural Commercial	17,251,023	23,474,207	4,470,807		14,696,744	3,506,872	1,663,041		65,062,694	10.15%	59,155,598	0.91
Total Power	100,410,523	188,261,185	27,502,830		2,200,278	697,834	4,067,025		323,139,675	9.37%	297,769,555	0.92
Power - Published Rates	18,513,783	32,677,321	4,878,367		1,851,111	235,614	1,797,409		59,953,605	9.44%	52,974,867	0.88
Power - Contract Rates	81,896,740	155,583,864	22,624,463		349,167	462,220	2,269,616		263,186,070	9.36%	244,794,688	0.93
Oilfields	39,530,120	70,127,144	10,280,060		32,388,982	7,922,197	5,706,282		165,954,785	10.26%	150,879,673	0.91
Streetlights	1,531,167	1,695,926	401,812		1,012,842	7,985,735	595,278		13,222,760	10.68%	13,221,396	1.00
Reseller	25,795,840	36,523,041	7,055,447		73,164	85,297	141,994		69,674,784	9.59%	61,120,335	0.88
	\$335,759,813	\$524,646,468	\$88,202,714		\$158,383,829	\$60,296,697	\$57,882,077		\$1,225,171,598	9.51%	\$1,124,393,555	0.92

* These R/RR ratios have not been adjusted to provide a system average of unity.

Table C-2: 2004 Revenue Requirements (Existing Rates)
Constant Class RORB

Customer Class	Generation		Transmission		Distribution		Customer Service	Total Revenue Requirement	RORB	2004 Revenue (Existing Rates)	2004 Revenue (Proposed Rate)	R/RR* Existing Rate	R/RR Proposed Rate
	Demand	Energy	Demand	Energy	Demand	Customer							
Total Residential	71,033,839	84,681,708	18,171,206	49,383,340	23,598,739	32,510,567	279,379,400	9.51%	248,728,127	272,282,573	0.89	0.97	
Urban Residential	59,037,956	71,687,961	15,103,066	38,633,077	17,488,701	28,071,205	230,021,966	9.51%	206,229,237	224,334,365	0.90	0.98	
Rural Residential	11,995,883	12,993,747	3,068,140	10,750,263	6,110,038	4,439,362	49,357,434	9.51%	42,428,890	47,948,208	0.86	0.97	
Farms	30,680,670	42,082,663	7,847,077	27,361,975	10,403,166	7,612,256	125,987,807	9.51%	116,928,281	125,114,627	0.93	0.99	
Total Commercial	67,363,691	101,464,019	17,225,620	46,876,775	10,360,197	7,413,547	250,703,849	9.51%	235,746,188	255,782,394	0.94	1.02	
Urban Commercial	50,395,264	78,243,280	12,890,202	32,652,583	6,959,185	5,756,059	186,896,574	9.51%	176,590,589	190,719,700	0.94	1.02	
Rural Commercial	16,968,427	23,220,738	4,335,418	14,224,192	3,401,012	1,657,488	63,807,275	9.51%	59,155,598	65,062,694	0.93	1.02	
Total Power	100,778,593	188,699,303	27,688,407	2,210,136	701,640	4,069,068	324,147,146	9.51%	297,769,555	323,139,675	0.92	1.00	
Power - Published Rates	18,547,549	32,716,381	4,895,241	1,858,123	236,344	1,797,960	60,051,598	9.51%	52,974,867	59,953,605	0.88	1.00	
Power - Contract Rates	82,231,043	155,982,922	22,793,166	352,014	465,296	2,271,108	264,095,549	9.51%	244,794,688	263,186,070	0.93	1.00	
Oilfields	38,773,391	69,241,427	9,917,039	31,178,588	7,636,180	5,685,899	162,432,525	9.51%	150,879,673	165,954,785	0.93	1.02	
Streetlights	1,485,923	1,662,746	380,108	954,563	7,768,405	591,683	12,843,427	9.51%	13,221,396	13,222,760	1.03	1.03	
Reseller	25,742,288	36,473,275	7,027,531	72,860	84,998	141,945	69,542,897	9.51%	61,120,335	69,674,784	0.88	1.00	
	\$335,858,394	\$524,305,141	\$88,256,989	\$158,038,237	\$60,553,325	\$58,024,964	\$1,225,037,051	9.51%	\$1,124,393,555	\$1,225,171,598	0.92	1.00	

* These R/RR ratios have not been adjusted to provide a system average of unity.



APPENDIX D

Table D-1: Comparison of Rates with Other Jurisdictions

Comparison with Rates as of January 2004

	Manitoba Hydro (Winnipeg)	City of Medicine Hat	ATCO (Alberta)	EpCor (Edmonton)	Enmax (Calgary)	BC Hydro
Residential	158%	120%	75%	107%	92%	158%
Small Commercial						
Non-Manufacturing	132%					
Manufacturing	132%	83%	73%	102%	92%	139%
Medium Commercial						
Non-Manufacturing	139%					
Manufacturing	135%	90%	78%	91%	85%	119%
Standard Commercial						
Non-Manufacturing	154%					
Manufacturing	130%	83%	-	-	-	133%
Standard Grain Farm	161%	95%	97%	-	-	153%
Large Grain Farm	133%	86%	99%	-	-	132%
75 KV Farm						
Non-Manufacturing	142%					
Manufacturing	129%	96%	-	-	-	119%

Comparison with Rates as of 2004 September Proposed Rate Increase

	Manitoba Hydro (Winnipeg)	City of Medicine Hat	ATCO (Alberta)	EpCor (Edmonton)	Enmax (Calgary)	BC Hydro
Residential	172%	130%	81%	117%	100%	171%
Small Commercial						
Non-Manufacturing	140%					
Manufacturing	146%	91%	81%	112%	101%	154%
Medium Commercial						
Non-Manufacturing	146%					
Manufacturing	149%	100%	86%	101%	94%	132%
Standard Commercial						
Non-Manufacturing	164%					
Manufacturing	150%	95%	-	-	-	153%
Standard Grain Farm	173%	103%	105%	-	-	165%
Large Grain Farm	142%	92%	106%	-	-	141%
75 KV Farm						
Non-Manufacturing	160%					
Manufacturing	143%	107%	-	-	-	132%

Table D-1: Comparison of Rates with Other Jurisdictions (Cont'd)

Comparison with Rates after 2005 September Proposed Rate Increase

	Manitoba Hydro (Winnipeg)	City of Medicine Hat	ATCO (Alberta)	EpCor (Edmonton)	Enmax (Calgary)	BC Hydro
Residential	175%	132%	83%	119%	102%	174%
Small Commercial						
Non-Manufacturing	143%					
Manufacturing	151%	95%	84%	117%	105%	160%
Medium Commercial						
Non-Manufacturing	148%					
Manufacturing	155%	104%	90%	105%	97%	137%
Standard Commercial						
Non-Manufacturing	164%					
Manufacturing	144%	92%	-	-	-	147%
Standard Grain Farm	175%	104%	105%	-	-	166%
Large Grain Farm	143%	93%	107%	-	-	142%
75 KV Farm						
Non-Manufacturing	165%					
Manufacturing	149%	111%	-	-	-	137%



APPENDIX E

APPENDIX E

- SaskPower Rate Proposal, August 2004
- SaskPower Rate Proposal Summary, August 2004
- 2004 SaskPower Strategic Plan, Business Plan and Budget
- 1999-2003 annual reports (plus SaskPower Operating costs Report)
- Economic Forecast
- Supply and Development Plan
- Natural Gas Hedging Activities
- Depreciation Study
- Corporate Capital Tax Summary
- Municipal Surcharge Forecast
- SaskPower Quarterly Reports (First & Second)
- SaskPower 10-Year Transmission Development Plan – May 2002
- SaskPower 'rebutial' to 2001 Rate Review Report
- City of Saskatoon Summary Information , 2004-2005 Proposed Rate Increase
- SaskPower 2004 Forecast to Year-End Financial Statements and Corresponding Schedules (including updated version as at October 31, 2004)
- SaskPower 2005 Business Plan
- SaskPower 2003 Update to "The Report on SaskPower Operating Costs 1991-2001", June 30, 2004
- SaskPower updated economic forecast for 2004 to 2014
- Hydro Generation – 2003 Supply Development Plan
- SaskPower Assumptions for 2004 Supply Development Plan and Fuel and Purchased Power Budget for use in the 2005 Business Plan, June 2004
- SaskPower Market Risk Management Policies and Procedures Manual, December 2000
- SaskPower Cost of Service & Rate Design presentation, September 2004
- SaskPower Rate Class Allocation Methodology Summary
- Review of SaskPower Costing and Pricing Methodologies, prepared by Foster Associates, Inc., October 2002
- SaskPower Rate Application for 2004-2005, Supplementary Information
- SaskPower 2004 Load Forecast, March 2004
- SaskPower 2004 Forecast to Year-End, Financial Statements and Corresponding Schedules, August 31, 2004

APPENDIX F



Table F-1: Rate Impacts on Various Rate Codes

Class of Service	2004				2005		
	Year 2004 R/RR Ratio (Existing Rates)	Year 2004 R/RR Ratio (Proposed Rates)	Proposed % Increase within Class	Probable Range of Increases % Within Class	Year 2005 R/RR Ratio (Proposed Rates)	Proposed % Increase within Class	Probable Range of Increases % Within Class
Urban Residential	0.98	0.98	8.7%	8.10 to 11.47	0.97	1.7%	
Rate Code E01 - City							1.33 to 3.41
Rate Code E02 - Town, Village & Urban Resort							1.33 to 3.41
Rural Residential	0.95	0.97	13.0%		0.97	2.0%	
Rate Code E03 - Rural, Resort				12.16 to 16.43			1.41 to 4.54
Rate Code E04 - Residential Diesel				12.86 to 14.61			1.94 to 3.24
Farms	1.02	0.99	7.0%		0.99	1.0%	
Rate Code E34 - Farm				-7.23 to 24.98			0.66 to 9.91
Small Commercial - Urban	1.03	1.02	7.4%		1.02	1.9%	
Rate Code E75 - GSS - SP Transformers				-3.5 to 16.25			0.98 to 4.16
Rate Code E77 - GSS - Customer Transformers				10.3 to 11.55			1.67 to 169
Small Commercial - Rural	1.02	1.02	8.0%		1.02	2.0%	
Rate Code E76 - BSS - SP Transformers				-4.7 to 23.72			0.53 to 3.98
Rate Code E78 - GSS - Customer Transformers				4.60 to 9.16			1.74 to 1.92
General Service - Urban			8.1%			1.8%	
Rate Code E05 - GSL - SP Transformers				-7.52 to 17.37			0.79 to 5.05
Rate Code E07 - GSL - Customer Transformer				-8.13 to 10.25			1.08 to 2.29
General Service - Rural			10.9%				
Rate Code E06 - GSL - SP Transformers				-11.07 to 20.44		2.0%	0 to 2.7
Rate Code E08 - GSL - Customer Transformer				-4.22 to 19.20		1.2%	0.54 to 1.52
Rate Code E10 - GSL - Customer Transformer				9.96 to 11.04		1.2%	2.56 to 3.14
Rate Code E12 - GSL - Customer Transformer				13.87 to 25.00		1.2%	2.84 to 7.81
Manufacturing and Food Processing			11.0%			3.9%	
Rate Code E60 - GS - M/FP - 72 kV Customer Transformer				10.99			3.83
Rate Code E65 - GS - M/FP - Urban - SP Transformer				10.62 to 11.00			3.78 to 3.90
Rate Code E67 - GS - M/FP - Urban - Customer Transformer				10.93 to 11.00			3.84 to 3.89
Rate Code E66 - GS - M/FP - Rural - SP Transformer				10.50 to 11.00			3.83 to 3.92
Rate Code E68 - GS - M/FP - Rural - Customer Transformer				10.20 to 11.00			3.90 to 3.91
Rate Code E62 - LM/FP - 25kV Customer Transformer				10.90 to 10.99			3.92
Rate Code E63 - LM/FP - 72kV Customer Transformer				10.98 to 11.00			3.92
Rate Code E64 - LM/FP - 138kV Customer Transformer				11			3.92
Power - Published Rates	0.95	1	14.0%		1.01	3.0%	
Rate Code E22 - Power - 25kV				11.18 to 15.31			2.69 to 2.89
Rate Code E23 - Power - 72kV				12.17 to 17.45			2.90 to 3.02
Rate Code E24 - Power - 138kV				12.34 to 19.49			2.72 to 3.13
Oilfields	1.02	1.02	10.0%		1.03	2.0%	
Rate Code E43 - Oilfields				-8.54 to 25.01			-0.57 to 9.10
Rate Code E46 - Power - Oilfield - 25kV				14.29 to 17.46			2.75 to 2.93
Rate Code E47 - Power - Oilfield - 72kV				11.88			3.02
Rate Code E48 - Power - Oilfield - 138kV				13.72			3.17

Saskatchewan Rate Review Panel

Supplement to the December 17th Report

Comments from Individuals & Organizations about Saskatchewan Power's 2005 – 2005 Rate Proposals & about SRRP

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QUOTES - FROM 49 INDIVIDUALS' EMAILS

Date	Content
Aug 11	<i>I just wanted to say that I can't pay any more increase for power.</i>
Aug 22	<i>For many, many years our government, through the Crown Investments Corporation, has been draining most of the profits generated by the crowns to cover-up government operating deficits. Of course, that means the Crowns need to borrow more than otherwise would be the case for the capital improvements to meet growing service demands. Rate increase requests are then necessary, to in part meet debt servicing costs. In the private sector, such practices would surely lead to financial difficulty and, eventually insolvency. To avoid that, however, the Crowns simply keep coming back for rate increases, year after year.</i>
Aug 23	<i>Speaking as a person who only earns approximately \$7 an hour, my income is quite limited. Although the increase may not be a lot for the average home owner, for those on a fixed income, every penny counts. To be fair to Sask Power, I feel they do deserve a modest increase, but not to the extent that they are asking. ... they should follow the government's common quote when negotiating with union representatives: "2, 2 and 2". ... This formula would allow for the cost of inflation and hopefully not cause too much detriment to the economy or those on fixed incomes.</i>
Aug 26	<i>As an employee, I find it difficult to explain to our customers the reason for an increase when they hear of the profit the Corporation makes.</i>
Sept 1a	<i>I feel that the rate increase requested by Sask Power is totally unwarranted. Any responsible Company would set money aside for infrastructure renewal before declaring a profit that the Saskatchewan Government stole from them. ... This is shameful of the government to put a Crown Agency in a position such as this.</i>
Sept 1b	<i>... I do not think it is fair at all to allow an increase of 9% in our power rates. As a rural person,.. it is already too high a cost for power services in our community. ... Unfair.. we are already over taxed...</i>
Sept 1c	<i>Many of us are on fixed incomes and can't afford to take a 9% increase. This along with the increases in natural gas prices makes living very challenging. We have to be creative in balancing our budget and have to sacrifice many things we would like to have...</i>
Sept 1d	<i>I think it is very troubling that the Government of Saskatchewan can use the Crowns like a cash cow. They can take from a Crown and then turn around and raise rates to cover their grabbing.</i>
Sept 2a	<i>I am someone who is on a fixed income and have had to find ways to off set my living expenses. I'm not prepared for another increased expense especially at the whim of the NDP government and Sask Power.</i>
Sept 4	<i>I wish to strongly urge the panel not to allow the 14% hike in rates Sask Power charges the City of Saskatoon for bulk power.. This is an obscene increase and so is the proposed 9% hike in general.</i>
Sept 15	<i>When does it stop?: I have the feeling 'never'. ... Everything continues to be on an uprise, including wages. But you should just come out to the rural and try to farm for a couple of years. Watch how everything continues to skyrocket in prices, and yet we are selling our wheat at the same price my dad sold it in the 60's: unbelievable.</i>
Sept 22	<i>The timing of this increase is awful. Farmers are turning on air fans in record numbers to try to persevere the difficult circumstances they are faced with. Grain prices are low, moisture is high, quality low, with utilities going through the roof. It conveys a message of gouging, when people are struggling, big-time.</i>
Sept 25	<i>I find it difficult to believe that Sask Power thinks that an individual rate impact of 25% is acceptable! Last I heard, inflation is running below 3%.</i>

49 INDIVIDUALS' EMAILS QUOTES, cont'd

Date	Content.
Sept 28	The real problem is that with rates so out of reach already and no increase in things such as pensions and wages, except maybe a meagre 1% on wages if a person is really, really lucky: how can Sask Power who makes billions of dollars per year justify an increase of 10% now and who knows what in 2005? ... I do not see how they can justify such a rate increase when the average citizen is already living below the poverty line in this province.
Oct 4	I see from the latest brochure in this month's power bill (a whopping outrageous \$175!!!!) that Sask Power is going to sock it to us rural residents (AGAIN!!), i.e. acreages, with ANOTHER 13% increase! What kind of incentive is this for my husband to operate his [small business] shop in this dying rural area [place name deleted] .. This is unacceptable and two-faced. We are being punished for living in this country!.
Oct 6	After reading the rate review information pamphlet... I was somewhat disturbed. ... Reasons for the increase: "costs more to produce": Didn't Sask Power make a huge profit in 2003 and most of this was given to the government to spend? "infrastructure showing its age": This too is important, but I recall the former minister Lautermilch imposing a construction levy about two years ago that was to provide for this. ... I believe it's about time to put the brakes on these constant increases and challenge management to work smarter.
Oct 7	Sask Power earned more than 187 million dollars during the last fiscal year! Given that information, I feel an increase in power rates is just an tax increase in disguise.
Oct 9	No increase, please.
Oct 13	Here we go again! Another hit on the folks in rural Saskatchewan. RE: "Increases are higher for rural customers to more accurately reflect the actual cost of providing service". I have no choice but to respond. I come from rural Saskatchewan... and I am tired of hearing from the so-called experts ... [and] to be honest, I have had enough of this 'divide and conquer' attitude from our urban counterparts. We are all equal and it certainly shouldn't be a Crown corporation that starts this discriminatory tactic. I come from an era where this province had to band together to benefit everyone. That was the dream that got Saskatchewan Power started. It took over small and struggling power utilities to make a larger more reliable company. That company was owned by all the people of this province and it had a heart for the rural population. I can remember (back in 1955) when I was helping my father and other neighbours dig holes and push up power poles so that next year we too would have power. ... We worked together co-operatively. Now somewhere along the way, some of us have forgotten this "working together" principle. ... If I may be so bold as to say now, that if we must continually get out heads stuck in the "corporate" sand hole versus the "co-operative" way of working together, then maybe we should sell off and privatize Sask Power. At least, at that point in time, I as a rural subscriber may be treated with some dignity and respect from our urban corporate cousins and not looked upon them as being a non-contributor to our society. ...
Oct 14b	The govt should keep its greedy hands off money from its crowns and let them run their operation as a business of providing service to its customers. If the govt needs the cash, they should have the courage and come forward to the taxpayers and ask for a tax increase!

49 INDIVIDUALS' EMAILS QUOTES, cont'd

Date	Comments
Oct 14c	<i>A number of years ago a \$2.00 monthly infrastructure charge was added to my electrical bill... Where did this money do and is this charge still buried in my bill?</i> <i>I understand that in 2003 Sask Power made a profit of approximately \$190Million. Why was this not used to upgrade infrastructure?</i> <i>Most companies that earn a profit use the finds for capital projects and to benefit the owners or shareholders. Why are Sask Power profits needed to finance the poor performance of this present government?</i> <i>... Only in Saskatchewan can a business that earns a substantial profit claim poverty and request approval of higher rates when such increases have already been applied.</i>
Oct 20a	<i>I realize that I am just one voice, but I feel I must say I am disappointed and disgusted with Sask Power's request for an increase. I can barely afford to pay this one bill right now, and an increase will cause me to either move or go without other necessities. It is no wonder so many of us young people from Saskatchewan move, we cannot afford to live here.</i>
Oct 20b	<i>...whatever happened to the extra \$2.00 per month that was tacked on to all urban customers for a period of 25 years, that was earmarked for infrastructure. ... Was this extra money turned over to the Govt also? Farmers contributed more than \$2 per month.</i>
Oct 21	<i>I am an old age pensioner, and live on less that 10,000 a year. You are taking away any chance of a normal life, like you people do. You are forcing seniors out of their homes. We get a dollar raise every six months, how much do you get? I think it is really unfair to keep sucking from the poor to make a company rich.</i>
Oct 22a	<i>By sending the info you [Sask Power] have, you give me nothing but suspicion!! ... Cost of gas and purchased power are meaningless without backup figures... In the future, either give the whole picture or save the time & money to produce such a whining brochure. Possibly the Public Service could use the same type of info...to justify rate increases. Looks pretty easy if they just have to show their increased costs. Yours in disgust...</i>
Oct 22b	<i>But not all people make this kind of money. ... Power, gas,& telephone go up every year: does your hourly wage?: 'No'.</i>
Oct 23	<i>Small business owner in Regina concerned about City of Saskatoon & City of Swift Current's protests about rate increase as detailed in print media</i> <i>We have no recourse but to rely on the Saskatchewan Rate Review Panel to assure us that such rate increases are justified and fair. If the panel finds that the rate increases are justified – so be it. But above all, we expect to be treated fairly.</i> <i>The writer goes on to detail rather extensive research undertaken using Saskatoon 2003 Financial Report and asks</i> <i>Why should we, as a commercial business in Regina, continue to subsidize the City of Saskatoon & City of Swift Current? Perhaps the Rate review panel should review the reseller rate increase as well as Sask Power's.</i>
Oct 24	<i>I do not think it is fair to increase these rates for two reasons: 1) Sask Power is not increasing the wages for its employees in spite of the profits they have had; and 2) according to what our employer is saying, there is a zero wage increase for the rest of the province. How can you justify Sask Power's increase?</i>

49 INDIVIDUALS' EMAILS QUOTES, cont'd

Date	Content
Oct 25a	<i>The government took away Sask Power's profits last year and didn't leave them with the ability to meet their commitments this year. By increasing the Sask Power rates now, they are effectively taxing us through Sask Power. If they hadn't done that, there would have been last year's profits to address some of the concerns outlined by the flyer I received in my power bill. ...</i> <i>Please decline the proposed rate increase. If the government wants more of my money, they should have the courage to be honest and upfront about it. Approving the rate increase indicates to them that this is an acceptable way of generating revenue. I am not against paying more in taxes, if it is needed, or paying my share of power generation. I just need to be respected enough by the crowns and the government to be dealt with honestly and openly.</i>
Oct 25b	<i>Didn't Sask Power and Sask Tel send out a mass flyer last year bragging about how much money the crown corps made??? Now they need an increase. Let's get serious. How many millions is a reasonable surplus for this government.</i>
Oct 27	<i>My objection is based on my belief that the majority of Sask residents are not financially capable of carrying any more expenses. Our agriculture industry has been put into gross economic deficit out of little to no fault of its own. ... A year of reprieve would be most welcome, as few people will be seeing wage increases this year and many are facing de-employment. ... Although this is a separate Crown Corporation, I would think our province and your corp should show its people the same loyalty and respect. Have a heart!</i>
Oct 29	<i>I am living on a gross income of less than \$2,500 per month. I have been living on this amount since the early 1980's when it was a rather comfortable income. ... WHEN DO I GET MY RAISE? I do not see why poor planning ... should generate hardship in my household!</i>
Nov 8	<i>If the cost to produce power went up, and the infrastructure is showing its age, why were the profits last year not used for this purpose?</i>
Nov 11	<i>What about all the money you give to charity – I do not agree that Sask Power should be giving thousands of dollars to charity and advertising.</i>

22 INDIVIDUALS' LETTERS QUOTES

Date	Content
Aug 6	<i>I have a real problem with Sask Power wanting to increase our power by 11%. At some time this has to stop. We – the farmers and ranchers – cannot afford this, with cattle dropping from 75%-90% since May 20, 2003, it is impossible to pay.</i>
Aug 21	<i>I have no objections to an increase in power rates. I think we are getting a bargain. It may encourage users to conserve.</i>
Aug 23	<i>Sask Power should again consider that sponsorship programs and advertising (other than safety) are totally an expense for a utility that has no competition and prides itself on low utility rates, low profits, and good service. Sask Power has been trend-setting and innovative... and senior executives, the Board, the government, and the public can come up with alternative solutions:</i> <i>Writer proposes: 1) more efficient coal-fired generation; 2) raising natural gas shipments from 1,000 BTU to 1,500 to save shipping costs and possible increase coal/gas mixture's efficiency; 3) re-thinking requirements in rural areas – we are very lax in keeping abreast of cost/profit picture here – with respect to a) appropriate capita/infrastructure investments for a generally decreasing population; b) better 'spans' with carbon filament poles; c) either charging for delivery and capacity costs for heavy users (large farms; corporate farms; oil companies) and/or d) appropriate metering for winter 'down time' capacity on stand-by, which costs other rural users; 4) reconsidering 'locked in' contracts with large companies (such as oilfields and IPSCO) so large users are not subsidised.</i> <i>... The mindset that Sask Power is here to give large farms, corporate farms, oilfield, and industry cheap power to keep them here or employ people is their 'schtick', not ours. They will pay to stay: this is based on the obvious.</i> <i>I have never seen as break given to a rink or an old folks' home where 100 or more people are using one transformer.</i> <i>It could be time for Sask Power to address another bold plan as we did with Rural Electrification, and that could be De-Electrification plans saving hundreds of millions... A program to have people save energy would still keep Sask Power profitable and rates down. Writer proposes: energy efficient lighting – "streets too", and conversion of electric water heaters and dryers to gas; focussing on solar & other energy savings; and setting targets for Sask Power's engineers.</i> <i>As a retired Sask Power / Sask Energy employee it is difficult to see an 8.7% increase when we do not even get an ad hoc increase in our pensions. Successful crowns are built by workers. Input, imagination and morale co-exist in an atmosphere of fairness – sponsor a pension social or a seniors' home, not a curling tournament...</i>
Aug 28	<i>I understand that in 2003, Sask Power had a profit of \$187 million dollars, of which it turned \$169 million over to the provincial gov't. Wouldn't Sask Power have been wiser to have put the 2003 profit towards infrastructure updates, repairs and rising costs? I think that Sask Power raising its rates at this time puts further financial burden on Sask residents at a very tough economic time, especially in rural Sask.</i>
Aug 29	<i>I wish to lodge a formal complaint against the present high cost of power & the proposed increase. We currently pay nearly \$420.00 for each three period and cannot pay more – not a 10% increase!</i> <i>We live on a farm in a 40 year old house... re-insulated and now upgrading windows & siding ... washing clothes in cold water and us[ing] clothes line .. all summer. We should be receiving a rebate from Sask Power from the 1.9 million dollars they over-charged us last year.</i>

22 INDIVIDUALS' LETTERS QUOTES, cont'd ...

Aug 30	<i>This is sick. The Crowns were started to acquire and supply bulk energy & power, to make Sask a great place to live. Profit is great! But Gov't in this province has gotten much too fat! Profit should be called taxes! ... Why, if this Cown Corp is not a Crown, why are we not being more aggressive to develop the energy sector... Disgusted with the 40% increase over the last year.</i>
Sept 7	<i>The public purse and the level of our patience are not limitless. There is a finite acceptance to the questionable excess of your old and tired business plan. Rather than an increase in electric rates, a more persuasive argument and impact will result from... a "modern" and enthusiastic business plan. It is necessary to purge the corporation of the barren and hopeless tacticians and political reprobates that contaminate the profitability of the power generation utility in this province.</i>
Sept 15	<i>I just received my Septemebr 2004 Power bill ... This translates into an increase from last year's Budget Billing to this year's revised ... of 19.24%. I live in North Eastern Saskatchewan and do not have the benefit of using Natural Gas as a heat source. Neither my husband or myself have received pay increases of more than 1.5% this year. How are we expected to handle these huge increase, when we were told that the "average" increase for residential consumers would be \$6.00 a month? ... It was only a few years ago that we were forced to convert to Sask Power, and my bills show huge increases in hydro [45%] in comparison to what our neighbours in Flin Flon pay.</i>
Oct 9	<i>I heard... that Sask Power gave away to the government recently \$100,000, 000... how can you justify a raise of approx. 9% for this year and around 1.5% for next year? Saskatchewan is basically an agricultural province & our farm production is down – not up! I heard... that Sask Power pays the head honchoes \$180,000 a year wages... how can you justify that kind of salaries for people who are only wage earners. How many farmers in Saskatchewan make \$180,000 a year above their farm input costs? ...</i>
Oct 10	<i>I presume, by now, the majority of your feedback is that you should not increase power rates.. You are unclear as to whether the rate increases are relevant or just another tax grab, as the media says. ... I do not believe you should have a rate increase, but an education sector DECREASE, also a RESEARCH SECTOR DECREASE. ...</i>
Oct 11	<i>Here are my comments on the "already in effect" Sask Power increase. Sask Power had over 100 million in profit, but the government took a large amount into general revenue. As long as the government is allowed to take the profits, there will always be a need to increase rates. ... Where does the \$ come from for events that are sponsored by Sask Power, Sask Energy or Tel? Is this more spending that forces all of us to pay more for something we don't want to support... Next year is 100 years for Sask, how many millions will be wasted in celebrating?!! If the priority was put on wise government spending, ending government input in projects that have lost millions, and getting our financial affairs in order, we would really have something to celebrate in a more affordable life for all. ... It's been said that for every one person who speaks up – 100 more are thinking the same... I am just a SK resident speaking for 101.</i>
Oct 12	<i>I have a real concern about the rural power rate increase. Our farm meter was read July 20034. Now the proposed increase is to be Sept 1 2004. How do you plan to rate us? Are we paying the increase since the meter reading? Farming and rural Sask are struggling with the increased prices of fuel and this is just another blow.</i>
Oct 18a	<i>I do understand that costs rise for all people and crown corporations... but immediately proposing increases of 9% is just going to hurt the average Joe in a big way. ... Instead, I suggest a proposal of 4% instead of 9% which the public will be able to accept and which will in turn provide Sask Power with some additional revenue. ...</i>

22 INDIVIDUALS' LETTERS QUOTES, cont'd ...

Oct 18b	<i>Our family runs a transportation business and there is no way we get an 8% raise by whining. Where does anyone get that kind of raise? ... With all the taxes and increases that the Sask government forces on us, we all have problems... Why has your new billings not included the actual price of electricity? Is that so we can['t] compare?—especially since Alta Power is cheaper and will be much cheaper after your raise!! ... And the Sask government wonders why people are leaving the province in droves. Believe me, as soon as we can we will be liquidating our properties ... before the Province of Sask and utility companies break us.</i>
Oct 22	<i>No: Sask Power should not get a rate increase for many reasons.</i>
Oct 25	<i>As a concerned taxpayer and power customer, I am writing this note to express my disgust at the pending power increase (of course you call it a rate application, but it will be a done deal!). I live in rural SK... and have to tolerate this old infrastructure (frequent power outages). ...The Sk government has no right to take money out of Sask Power and put it into General Revenue (80 million dollars). You can only take money out of the profit you make after all the bills have been paid, not before. ... As a rural customer I am not getting value for my dollar. Most of the modern technology and equipment is going into the larger communities and cities and the spread between urban and rural residential rates continues to increase with every percentage increase. I believe Crown Investments Corp and its shareholders are doing very well at the expense of the consumer. ... We are all having hard times but we don't have taxpayers to bail us out!</i>
Oct 26	<i>... I realise that power generation costs and aging infrastructure need to be addressed. ... it has been made public that your corporations have recorded huge profits in the past but they have not been channelled to the necessary needs ... I recently ... visited a Sask Power display informing the public what we can do to decrease our power bills. Many consumers including myself have taken this advice and applied it. Obviously this is not the total answer because this means you are selling less power and need to increase the rates. ... I do feel that the rate increase are unjustified and perhaps one should be looking at how your profits are spent and what the government is doing with these.</i>
Nov 3a	<i>What did you do with the millions dollars profit from last year? I think this back door has to stop ... More accountability is needed so you do not have to shaft the Saskatchewan people.</i>
Nov 3b	<i>You want feedback? I'll give you feedback! #1 It is because of brochures such as this one that so many people are leaving the province. #2 It is because of brochures such as this that I soon hope to be leaving the province. Stay happy...</i>
Nov 4	<i>You must not allow Sask Power to increase their rates any further: it's time to draw the line. ... They want the public to pay to replace their old lines and equipment, but that's what our basic charge is for every month, for them to provide the service...</i>
Nov 10	<i>The Crown Corporations were formed to provide Saskatchewan Citizens with reasonably priced services. For many years they did just that and we were the envy of others. However, over the past decade or so, the government has decided that the Crowns were cash cows that they could plunder at their will... Sask Power had a record profit last year and ...the CIC, at the behest of government, siphoned most of this money into general revenues. If this money had been left in the hands of Sask Power, they would have had sufficient funds to replace aging equipment without any increase ... My home here is heated by an electric forced air furnace so both my normal electrical use and my heating are dependant on Sask Power. After having sacrificed over twenty years of my life for the people of this province... having to spend a large portion of my monthly pension on electricity is a real slap in the face. It's no wonder that people are leaving the province in droves... If this unwarranted increase is allowed to stand, I may have to join this exodus...</i>

22 INDIVIDUALS' LETTERS QUOTES, cont'd ...

Nov 18?	While Sask Power provides many reasons to increase its rate, and an increase may in fact be justified, certainly the amount requested is out of line... 1. Sask Power has assumed a long-term finance rate of 6.75%, which is wholly out of line... 2. Sask Power assumes operating costs for 2004 and 2005 which [are] close to those for 2003 when it was very hot..., and reservoirs were quite low... [T]his year has been much cooler.. [and] this means that Sask Power will be generating more hydro power (cheap) and will require less natural gas (expensive)... 3. Sask Power suggest its infrastructure is getting old... I guess that's why we started paying a 'reconstruction fee' in 1996, which was incorporated into our bill (not removed) in 2000. ...[Is] the infrastructure now getting older at a faster rate? 4. Sask Power... indicates that the 'historic' compounded rate increases have been 12% on average to 2003. ...this increase is actually 31.4% for the residential consumer, while CPI is 22.9% for the same term... 5. Sask Power has indicated that, in this time of shrinking dividends, it wishes to pursue a capital venture, by itself, spending \$200,000,000 on a wind project... While this is a noble venture... it is not wise to finance it at the direct expense of ratepayers. ... 6. Finally in a 3% inflation environment, coupled with Sask Power's 0%, 1% and 1% wage increase for its own employees, Sask Power's request for a 9% increase is completely out of touch with reality...
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QUOTES – FROM 22 ORGANIZATIONS' LETTERS, BRIEFS, & PRESENTATIONS

Please note: the order in which these are presented here is not the same as their listing in SRRP's report

Date	Content
deleted	<i>The uncertainty caused by the actions of Sask Power during the last.. 10 years have made it difficult for [organization's name] to operate .. in an efficient and businesslike manner. Our ability to plan long term has been seriously affected ..</i> <i>[Organization's name] contends that the rate increase is not justified for [our] class.., is not based on justifiable facts, lacks transparency, clarity and fairness, [and] does not include a detailed cost-of-service model... Therefore it excludes any ability on the part of the public to challenge the methodology of allocating costs in spite of being a statutory monopoly. ...</i> <i>Sask Power has stated that they are in the process of rebalancing the rate to bring [organization's name] to a revenue-to-revenue ratio Requirement (R/RR) of 1.0 through their proposed rate increase. It is [our] position that all customers of Sask Power should be at a R/RR of 1.0, however, Sask Power has adopted a policy of establishing rates that include rate subsidization to specific customers. Currently, residential customers are at approximately .97. ... [Organization's name] does not disagree that rural residential customers should be subsidized by the larger whole. However, this is a policy decision of Sask Power, which should not negatively affect [organization's name].</i> <i>[We] are requesting three things...:</i> <i>1. that this Panel, as all others have done in past, roll back [organization's name] rate increase to the amount equal to an average of the rate increases for our customers classes, which is 8.5% ...</i> <i>2. a customer dialogue process in which representatives from all customer classes could meet with Sask Power;</i> <i>3. a transparent, fair and equitable process be reintroduced into the Saskatchewan rate review process that includes the reestablishment of the Public Utilities Review Commission.</i> <i>These quotes are taken from the brief's first 4 pages. The remaining 18 pages deal with history, provide the organization's re-calculations of the applicable R/RR ratio, raise 10 points to consider, and re-state its recommendations.</i>
deleted	<i>Please be advised that [organization's name] has a difficult time accepting the power fee increases implemented to the rural residents. Easements with the power corporation were signed to allow power poles on [rural residents'] land to provide power service on their property and also urban villages and cities, with the understanding that we would be treated equally. All rural residents pay for all power used on their property where urban residents receive a surcharge that is reimbursed to the cities, towns and villages for power usage.</i> <i>Now you are increasing the power rates excessively to rural residents. BSE, drought, frost and excess rainfall delaying and preventing harvest, have played a toll on our agricultural families and now power increases.</i> <i>We feel that Sask Power is not ruling the power fees fairly.</i>
deleted	<i>[We] wish to express [our] concerns about towards the 8.7% increase for Sept 1st, 2004 ... We are rapidly losing businesses and opportunities for economic development due in large part to savings in electricity on the [another province's] side. ... We are receiving power from the same supplier as our bordering community, but having to pay <u>an extremely higher cost</u>. ... Urban rates for residential and commercial customers in [our town] may be the same for all other Sask Power customers in Saskatchewan, however we do not have the advantage of natural gas for an alternate heat source. ... Energy costs are proving to be a large burden to our working families, and devastating to our poor and senior citizens who are trying to get by on meagre pensions. ...</i>

QUOTES – FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	<i>This organization would like to voice their concerns over the dramatic increase in power rates that occurred on Sept 2, 2004. The producers... in many cases are heavy users of energy supplied by Sask Power. This increase continues to add to the rapidly rising .. input costs that ...producers must face on a day to day basis. Please ... accept this letter on behalf of the ...industry that wishes Sask Power to reconsider their sharp increase in power rates..</i>
deleted	<i>A rate change of this magnitude is quite alarming. ...it would have been nice to have more time to study all the changes. Sending this out in August for a September 1st increase is unfair, as this is the holiday season. ... It would have helped to have a feedback forum where industry could communicate their thoughts to each other (support or not support).</i> <i>Secondly a 10% increase in costs is totally outrageous! As an operator of hundreds ... in Saskatchewan.. this increase may be the cost that forces suspension of numerous... In a province where taxes (royalties, sales, minerals) are already very cumbersome, this proposed increase could well be the "straw that broke the camel's back". Sask Power is viewed and a government run monopoly. This is just another reason not to do business in Saskatchewan.</i>
deleted	<i>... we are very concerned about the ... the recently announced electricity increases of 14% and 4% ... for Power Rate Customers... These increases represent millions of dollars in additional annual expenditures... and do not appear to be justified on a business basis. The real reason for this increase seems to be the unsupportable dividends that are being withdrawn from Sask Power by the Provincial Government, notably the \$169 million paid out at the end of 2003... Suddenly, some few months later a significant rate increase has to be put into effect to bolster this payout.</i> <i>In the past, Saskatchewan enjoyed reasonable and stable rates that contributed to growth in [our] industry, while at the same time providing ample profits to Sask Power. Excessive increases, such as the present increase, erode the global competitiveness of Saskatchewan and lead business to question expansion opportunities in the Province.</i> <i>These increases are simply taxes levied on production rather than on profits and the result may mean some businesses in Saskatchewan become uneconomic or unable to compete. ...</i>
deleted	<i>Utility rate increases, whether province-wide or local, always prompt justifiable interest and concern about impacts on consumers. We expect the Sask Rate Review Panel to complete their due diligence review of estimated supply cost and investment requirements before making a recommendation...</i> <i>Smaller municipalities with big utility bills especially for indoor recreational rinks, will face higher costs under the proposed rate increases, while some larger municipalities supplied by Sask Power will expect to see an offset from the local surcharge paid... In general, there appears to be a growing acceptance that utilities should at least recover their costs, as long as those costs are effectively and efficiently managed. The exception to that general principle... concerns the high electrical power demand charges faced by municipalities in the operation of recreational facilities. ...these facilities play a crucial role in the sustainability of many communities. While several efficiency measures have been implemented in the facilities, we believe the high demand charge rates are not sustainable and should therefore be subsidized by other rate categories.</i>

QUOTES – FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	<i>We are writing to express our concerns about the process being followed respecting Sask Power's proposed rate increase... we ask that Sask Power provide us with assurances that the revenues associated with the interim rate increase... are placed in a segregated, interest-bearing account that allows for proper accounting and refund should one result from the rate review panel assessment.</i> <i>As of Sept 1, our electrical service costs have increased 13.2% to 14.1%, over \$2 million a year.... Last increase was January 1, 2002 with a 3% increase for our calls – now requesting a 13% to 14% increase – no customer input? No warning?</i> <i>[The] "rate rebalancing" and "rate redesign" process causes our customer class to subsidize others. ... In 2002, our class had a "R/RR" ratio of 1.03... now Sask Power says our class's R.RR ratio is 0.95??? .. we ask the SRRP to assess whether it is fair and reasonable to now expect a group of companies who have paid their fair share in the past to bear the costs of correcting past subsidization decisions, and further support those same past subsidized customers?</i> <i>With regards to Sask Power's "rate redesign" efforts [and three billing components] with our customer class, we ask the SRRP to assess the justification and reasonableness of these different component escalations.</i>
deleted	<i>In the past six months, [organization's name] has more than doubled its load usage on the Sask Power system. With a load of approximately 16MH/h, the impending rate increase will have a noticeable impact on Saskatchewan operating costs. ... [C]ompanies face rising costs across their entire cost structure ... Controlling and managing costs is absolutely paramount...</i> <i>Most regulated utilities have a tendency to gravitate toward revenue generation solutions versus controlling and reducing costs. It appears that Sask Power has worked at managing its costs, but I believe this can be pursued more aggressively. For example it seems only prudent to offer large companies some ability to fix or hedge energy costs...</i> <i>After comparing organization's energy costs in Alberta and Saskatchewan: The trend is clear: Alberta's costs have been declining while Sask Power's costs are climbing. There are legitimate reasons for the differences, however it reduces competitiveness ... [Organization's name] has found Sask Power to be customer focused on this project, but is definitely concerned that these rate increases are going to marginalise the economics of this and other future projects. ... The proposed 10% increase... is rather abrupt and I believe the rate increase should be transitioned over a more reasonable time period. ... Saskatchewan remains a core growth area for ... [Organization's name] is keenly interested in what happens in Saskatchewan...</i>

QUOTES - FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	[Organization name] is a strong proponent of each customer group paying its fair share of the cost they impose on Sask Power's total system, and commends Sask Power for attempting to complete the four-year rate rebalancing program that was commenced on April 1, 2001 that is trying to get each customer class revenue to revenue requirement (R/RR) within the 0.95 to 1.05 range. As 50 percent of [organization's name] Canadian power costs are incurred in Saskatchewan, it is important to [our] competitiveness that the R/RR for the Power class of service ... be maintained at 1.0. Generally this statement applies to all Power rate customers, the majority of which compete with other entities outside of Saskatchewan. .. all customer rate classes should pay their fair share of costs... and enable industry (a major source of employment) based in Saskatchewan to compete in North America without the handicap of cross subsidizing other customers.
deleted	The 14% increase for business and industrial users... reflects an insensitivity to the business competitiveness imperative ... Sask Power's rate rebalancing <u>may be flawed</u> ... Sask Power's rate submission does not in fact move some categories closer to the balanced rate ... Sask Power's rate increase was effected in... its magnitude due to the Government of Saskatchewan's dividend declaration this spring. This dividend ignored capital requirements for Sask Power to sustain itself [and] had the effect of enforcing a price increase ... based on the pricing power available to Sask Power only because of its monopoly position in Saskatchewan market. ... The Government of Saskatchewan and Sask Power should reverse their positions on smaller scale co-generation industrial projects and power transmission for these projects for wholesalers ... to ensure the rate monopoly pricing power of Sask Power is indeed competitive. ... Sask Power should adopt productivity enhancing practices with established targets and transparent reporting ... Sask Power ... is not yet committed to productivity enhancement as a business imperative. ...
deleted	[We have] two main concerns, namely the timing and the amounts of the increases. [We] set [our] budgets each spring with limited flexibility for contingency such as unexpected utility rate increases. It is desirable that future rate increases occur on April 1st. ... As [we] receive the majority of [our] funding from the Provincial Government, either funding will have to be provide ... to cover this rate increase or [we] may have to cut programs/services or lay-off staff.

QUOTES – FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	<i>Our members are dealing with continuously increasing input cost and continuously decreasing net incomes, BSE and the border-crossing issue have taken their toll on the cattle industry, and the poor harvesting conditions this fall, will only add to an already depressed rural economy. ... Saskatchewan's rural economy has been hard pressed for years, and a further hit through a utility rate increase will only add to the hardships that already exist for rural residents. ...</i> <i>[We] do understand that the Government has approached this rate increase to reflect an equitable balance between urban and rural customers. But if the provincial government believes that all Saskatchewan residents should be treated equally when it comes to paying power rates, then a similar approach should apply to the education property tax, where rural areas currently pay a significantly higher portion of the property tax to fund education in Saskatchewan when compared with non-rural areas.</i> <i>Today, rural residents are faced with a 13% increase... In particular, farm customers would see and increase of 7%.. Considering all of the factors, a rate increase of this magnitude is unacceptable, and should be slowly phased in over a longer period, or at a time when the rural economy has stabilised</i> <i>... the Crown utility had a strong financial footing for 2003... paying a dividend to the Crown Investments Corporation of \$169 million. ...This raises the question of the current business practices of the Crown utility. For Sask Power to pay out a dividend to shareholders which is 90% of the total net income is not sound business management. ...</i> <i>Another concern is the ripple effect... that this increase will cause. Agricultural machinery manufacturers and similar agriculture-related industries are also faced with rate increases, and those increases will in turn be passed on the end-users, the farmers. ... This rate increase will have a huge impact on rural development and make the retention of current employers and attracting new businesses... even more difficult</i> <i>Our organization is willing to work cooperatively with the province to develop policy that will benefit rural and urban residents. A level playing field is good for everyone ... but we need to deal with all the inequities that currently exist ...</i>
deleted	<i>Rate increases such as the one being proposed by Sask Power are an impediment to economic growth and .. a concern not only to you organization but also our members. ... Recently members were asked two questions regarding Sask Power's proposed rate increases. .. The message from... members ... is clear: an 8% Sask Power increase <u>will</u> have a significant impact on business operations. ...</i> <i>Sask Power's requirement to provide a dividend is not the only revenue source for the corporation to the Provincial Treasury. The corporation also paid provincial corporate taxes... Combining the dividend and provincial taxes for the year 2003 amounts to \$196 million... Municipal surcharges and grants in lieu. account for a further \$49 million...</i> <i>... [We] recognize the need for there to be a return on investment. However, we would argue that the way in which this is measured needs to be reviewed... We would like to express our concerns about the government's continued support of the [Kyoto] accord as well as the lack of any visible plan to deal with the impact of Kyoto. ...</i> <i>We would urge the Saskatchewan Rate Review Panel to reduce the magnitude of the increase and recommend a cap to be put on any dividend paid to the Province of Saskatchewan...</i>

QUOTES - FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	We think that Sask power has had a good safety record, and [should] continue to strive for safety in construction, operation and maintenance, [and commend its] public education program on the safe use of electricity. Reliability of service is of key importance, [and] we favour interruptible rate for industrial and large loads. Cheaper off-peak rates would also encourage shifting of demand to off-peak periods... ... the potential for the efficient use of electricity has not been seriously explored in Saskatchewan, [a]lthough Sask Power has some demand side management programs... ..Sask Power [should] give serious consideration to the environmental effects of all further [power generation] options... [and] we prefer the development of power sources which rely as little as possible on fossil fuel. Sask Power should not be used as a tool to implement government policy. Using the utility to enhance economic growth and industrial diversification may be a good thing for the Saskatchewan economy, but it shifts the burden for economic diversification to Sask Power customers... [We have] always supported [everyone] paying fair rates for electricity... [H]owever we feel that residential rates need to continue to be somewhat subsidized [because industrial/business users pay with pre-tax dollars, while [others] pay with post-tax dollars] and to reflect the situation of lower income [earners]. The Corporation is attempting... a ROE in 2005 of over 10%. When customers pay their Sask power bill, they expect to... pay for the power they receive and the service costs associated... [and] do not expect that a small part of that money will go to fund government expenditures. ... We are concerned that the proposed rate increases were implemented in their entirety before the rate hearing was held and before any decision was made... [This] does not build public confidence in the Corporation or the rate review process...
deleted	These changes [as proposed by Sask Power] would involve very significant increases in power costs to our members... Individual customers have experienced even higher rate increases. These rate hikes will have a severe adverse impact on [organization's name] and will result in very significant increases to operating costs... We are very concerned with the process for implementing these rates. While the rate hikes are being reviewed with the public through this process, we believe that a change of this magnitude deserves consideration and review by major stakeholders in a more direct manner with Sask Power. ... More fundamentally, our ability to review the Sask Power proposal, outside of a normal hearing type process where we would ourselves have access to experts and lawyers to assist in dealing with these complex issues is severely constrained. our major concerns with this process: Sask Power has provided no information on its actual cost of service ... the Cost of Service study has not been made available. ... Sask Power provides no details on how it conducted its "rate rebalancing" and rate redesign double digit rate increases constitute "rate shock" for [organization's name] members, many of whom located in the Saskatchewan in anticipation of being able to operate in a competitive marketplace. ... Recommendations ... we urge you to recommend against approval of the applied-for rate changes. Should the Panel believe that ..evidence has been advanced to support certain rate increases, such as ..inflation, then we would urge the Panel to recommend that Sask Power recalculate its rates based only on such increases... ... no changes to the existing rate design should be approved. [These] should be subject to a proper evidentiary record [Organization's name] recommends the establishment of a more rigorous regulatory proceeding or a more informal dialogue process between the parties, such as a customer dialogue process...

QUOTES -- FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	The reason for this submission is our objection to the lack of consultation, the lack of a reasonable implementation period, and the seemingly arbitrary increase applied across the Sask Power customer base. ... [Our] success is continually threatened... [international] duties and tariffs, rising exchange rates, fierce commodity markets, shrinking... markets and increasing domestic and offshore competition make low cost manufacturing the key to survival. Abrupt and significant change in cost inputs, such as those proposed by Sask Power, is another threat to our competitive position. Most suppliers work diligently with our facilities to make both business partners successful. We face an immediate increase of 19.3% and an additional 2.7% next year. ... Costs will increase by over \$1.3 million over the next two years and represents 70% of the total increase for [organization's name]. ... [this] follows a significant increase in power costs in 2001 ... Overnight we were placed on the published rate schedule, increasing costs by \$1.2 million annually... A description of various points concerning cost and cost comparisons follows. Recommendations We urge you to recommend against approval of the proposed changes. If the Panel believes that ...evidence has been advanced to support certain rate increases, such as ... inflation, then we would urge the Panel to recommend that Sask Power recalculate its rates based only on such increases... ... no changes to the existing rate design should be approved. [These] should be subject to a proper evidentiary record ... Sask Power should provide documentation to support the staggering 47% increase in demand charges for the ... rate. Sask Power should offer standby and maintenance rates ... Any approved rate increase should be introduced over a reasonable time frame. ...
deleted	The Panel needs to understand that these are extremely challenging times ... Recent increase in the provincial sale tax, property taxes,... continued fallout from... BSE, high insurance rates, utility rate increases and another tough year in agriculture make for difficult times... [we] believe any increase in utility rates... will only make it harder for small and medium-sized businesses to succeed Organization presents results of a member survey, and continues [We] also question the \$169 million dividend paid to the Crown Investment Corporation in 2004 and recommend it is time for the government to reconsider its dividend policy... the call for the rate hike may not have been needed had the government not skimmed so much from the Crown last year. ... [Organization's name] strongly urges the Panel to reconsider Sask Power's proposed rate increase and freeze Sask Power's rates.

QUOTES – FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	<i>[We are] disappointed that Sask Power has not provided basic data or evidence such as a Cost of Service Study, a Depreciation Study, or justification for capital expenditures. This information is commonly provided in other jurisdictions so that rate payers can validate the application. This lack of data violates the laws of natural justice. ... [We] request the Rate Review Panel make recommendations to the Minister that the requested increase in rates is not justified, and that rate rebalancing is not fair and reasonable, nor in the public interest, and that the Minister direct Sask Power to publicly produce basic data and studies to allow validation of any future Rate Proposal. ... [We] submit that the Terms of Reference introduce an inherent conflict [and] violate the laws of natural justice in that the Rate Proposal cannot be properly investigated and vetted by the Panel. ... [We] submit that transparency is required to provide the public with sufficient information to assess whether or not the Rate Proposal is fair and reasonable. ...</i> <i>In the next 21 pages, calculations performed to test whether the application satisfies the "fair and reasonable test" are presented, and as is a discussion of rate design, rebalancing, terms and conditions of service, revenue and capital requirements, return on equity, financing costs, export revenue, fuel and purchased power, and depreciation. Principal recommendation are:</i> <i>[We] request that the Rate Review Panel make the following recommendations:</i> <i>1. Direct Sask Power to provide its Cost of Service Study</i> <i>2. Recommend to the Minister that the electricity rate for [organization's name] be 5% lower than any general rate change.</i> <i>3. Recommend to the Minister that there is insufficient evidence to recommend a rate increase at this time. ...</i>
deleted	<i>We strongly disagree that the Provincial Government should pre-approve a power rate increase of 9% as of September 1st for the balance of 2004. This indicates to the business community that the increase is "cast in stone".</i> <i>The people of Saskatchewan are the shareholders of the Provincial Crown Corporations. The fairest way to deal with the profits they generate is to set aside a sufficient amount annually to keep our aging infrastructure in proper condition. The balance of the profits should be credited back .. through an annual credit based on percentage of use. This would preclude profits disappearing into the "deep black hole" of the... General Revenue Fund. We understand that the Provincial Government declared themselves a dividend of 90% of Sask Power's profits last year. The power of the Government to make these decisions is wrong... In addition, we understand that the City of Saskatoon's grid will not make any money if this increase is passed. ... The "profit" the City made on the grid system will be gone resulting in a probable municipal tax increase for Saskatoon next year. A further hardship to be endured.</i> <i>.. The Government's thirst for money must be quenched. ... It is fair to pass on reasonable cost increases. This proposal is unreasonable. ...</i>

QUOTES – FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	We are happy to pay a fair and equitable price for electricity, and more than willing to participate in ensuring that electricity supply and pricing is fair and reasonable. However, we feel that we are unable to assure that we are in that position at this time. ... The proposed September 2004 and July 2005 increases amount to an additional ... 15.9% per year. Pricing for our products is governed by North American and international markets .. [the] result is a significant reduction in [our] competitiveness ... We are seriously concerned by the impact of the proposed increases... [our] budget was set in February 2004 and the lack of notice of such a large increase has made a mockery of our budgeting process... We are of the view that this process must be open and should be conducted in a transparent and non-adversarial manner to provide full disclosure ..., to fully test the filed material ... to evaluate the need for rate increases and the fairness and equity of the rates in an informed manner. .. Sask Power has declined to provide this information to us, citing "commercial sensitivity". If there was competition for electricity supply.. that might be valid, but there is not... Another major concern is the lack of adequate time to review and analyze responses [to organization's information requests] that were provided by Sask Power. 60 days is inadequate... We are also concerned about the narrowness of the scope that the Panel is to review, and the contradictions in the factors to be considered and those to be accepted as given. These points are taken from the first 6 pages. The organization's brief also analyzes and/or discusses Sask Power's capital plan, OM&A costs, rate design, rate shock, return on equity and revenue requirement ratio, and demand side management, and concludes at pages 20-21 as follows. In summary, respectfully requests that the Panel consider the following factors: 1. Lack of proper and adequate formal notice of the quantum of the proposed rate change... 2. the narrowness of the scope that the Panel is to review and the contradictions in the factors to be considered and ...to be accepted as given; 3. Sask Power's refusal to respond in a meaningful way to many of [our] queries, 4. Refusal by Sask Power to divulge information that it has apparently prepared and filed with the Panel, 5. Lack of justification for proposed capital programs.. 6. lack of details related to OM&A costs... 7. Lack of detail related to gas supply and risk management, 8 lack of adequate detail related to cost allocation, 8. lack of adequate time to properly analyze ... Recommendations ... The Panel should not allow the increase sought, but should require Sask Power to provide efficiency improvements of about 1%... ... the move in the R/RR from 0.95 to 1.00 should be phased in and .. a cap on increases for individual customers of 10% should be imposed.. ... future applications should not be made unless a formal 90 day notice of intended rate change is made, that adequate time be made available for interested parties, and that full data disclosure be mandatory... ... We strongly support the creation of a customer dialogue process...

QUOTES – FROM 22 ORGANIZATIONS, cont'd...

Date	Content
deleted	Overall [organization's name] is encouraged by the SRRP's rate review process and the use of a third party consultant. ... The level of information Sask Power provided and their willingness to provide additional information regarding the proposed rate increase also encourages [organization's name]. In our experience, this level of information sharing is unprecedented. We submit that through increased communication between Sask Power and their customers, the Saskatchewan electric energy delivery system can continue to be enhanced for the benefit of all stakeholders. Sask Power's four year rate re-balancing process also provides encouragement that Sask Power's rates are just and reasonable and comparable to other jurisdictions where cross subsidization is being reduced, with the goal of elimination within the accuracy of the underlying cost of service study. ... we recommend further improvement to Sask Power's rate proposal and the SRRP process. Rate reviews should be timelier to minimize the magnitude of the proposed increases. The rate review process should be more open and comprehensive. [Organization's name] is not able to make detailed recommendations on enhancements to the cost of service study or the resulting rate design. ... [We] recommend that the proposed rate increases be phased in gradually over two years. In 15 pages, the brief provides 8 recommendations, and a rationale for each. Main recommendations are: a) Rate Rebalancing should continue with the goal of moving all revenue to revenue requirement ratios to unity in the next Sask Power Rate Proposal. b) The 2004 and 2005 rate increases should be phased in over two years: 1. the maximum annual increase to any rate class should be limited to 10%. 2. the maximum annual increase to any customer should be limited to 13%. c) a review of Sask Power's long term resource plan should be undertaken ... d) the cost of service study should be adjusted to provide for the allocation of distribution demand costs based on annual non-coincident customer class peaks. e) Sask Power should be required to.. request rate adjustments on a timely and consistent basis, and at a minimum at least every two years. f) additional consultants should be retained to review Sask Power's rate proposal and related ... g) develop a Formal Interrogatory Process where consumers can ask questions of Sask Power with the answers posted to a public forum. In the alternative, [make public] questions posed by the SRRP's consultant and the answers provided by Sask Power.

CRITICAL OF PANEL – FROM 48 EMAILS FROM INDIVIDUALS

Date	Content
Aug 25	<i>Why are you wasting our money holding these hearings? You have no control over rate increases. The government has the final say in this & will do what they want, no matter what you say. If you had the final decision-making power, then maybe this would be justified. Get real, we have better things to spend our money on. Just how much money are you going to waste on these hearings? That part will never come out to the public.</i>
Sept 1c	<i>I find it very hard to believe that your panel gets to approve the increase after the fact. Why doesn't the panel get to review the proposal and then the increase gets implemented. ..</i>
Sept 2a	<i>Where does the government get off increasing a rate when a review has not been concluded? Sounds like the tail wagging the dog to me. Doesn't any panel have control of what Sask Power does?</i>
Sept 4	<i>I truly hope you will consider my request [to disallow the 14% "hike in rates for the City of Saskatoon"]. If you do not get many people complaining it is probably because we all think that you will be rubber-stamping your approval for these increases.</i>
Sept 5	<i>First I am shocked that you would allow Sask Power to implement their proposed increase prior to the completion of this Rate Review Process. The impression I get from this is that Sask Power is thumbing their collective noses at this process. By doing so Sask Power has undermined your integrity. What gives them the power to implement an increase without your approval? Your failure to act on this blatant insult tarnishes your reputation.</i>
Sept 28	<i>... what is the point of a rate review board – assuming you get paid – doing a review after the fact when the increase is already on the power bills – so everyone knows it will happen whether the citizens voice their opinion or not.</i>
Oct 4	<i>As for this rate review board, you have not done enough to protect us from SKPower hikes, we are hurting out here, with every approval you give. When have you ever stood up for me, my family, so we can afford to go on a vacation instead of getting raped from a Gov't company ... I think you need to get some gonads and stand up for the people of this province. Every time SKPower applies for a hike, you nod your little bobbling heads in agreement! Pathetic! It's time you stood your ground for something other than your big fat pay check. This whole process disgusts me and is a farce.</i>
Oct 13	<i>After proposing that a solution for rural people may be to privatize SkPower, writer states: Maybe then I may have a choice of where I can purchase my power, and maybe our Saskatchewan Rate Review Panel will not be a 'rubber stamp' for the so-called Crown Corporations.</i>
Oct 14b	<i>This compete exercise is a waste of time and my tax dollars! ... By doing so [if the government were to "keep is hands off the Crowns" and ask for a "tax increase instead of using dividends to pay for its debts"], they would make the govt more accountable ... save the cost of producing and delivering such phoney and redundant pamphlets and make such panels as the rate Review Panel redundant. I wonder what the cost savings would be?</i>

CRITICAL OF PANEL – FROM 48 EMAILS, cont'd

Date	Content
Oct 14c	<i>The higher rates have already been applied to my account – what is the need for the rate review panel?</i>
Oct 22	<i>The review panel is established by the govt. so why wouldn't you vote yes every time.</i>
Oct 31	<i>I personally wanted to express my extreme disgust in the panel and its existence. I guess I am not as upset with the panel as I am with the government that bypassed you. The fact that they did bypass you speaks volumes about your importance and relevance. This board they created to review hikes was an obvious entity created to make it look like the Crown Corporations had to be accountable for increases, and to make the government look good ...</i> <i>I don't doubt for one minute that this board is another waste of money that the taxpayers are going to pick up the tab for ... I hope each one of you on this board will consider how stupid the government you work for has made you look. Who did you vote for and would you do it again?</i> <i>I know this is supposed to be an independent review panel, but we all know who signs your pay checks, and the political influences you would be subject to. ...</i> <i>I would bet you money on the fact that you will support the rate increase, despite your findings. I would hope each of you would be honest and tell the truth despite the consequence.</i> <i>Disappointed but not surprised ...</i>

CRITICAL OF PANEL – FROM 22 LETTERS FROM INDIVIDUALS

Date	Content
Oct 11	<i>As for the role of the RRP, if you can't understand what residents are saying – which is – "ENUFF – TIME TO STOP" – and the government can override your recommendations anyways, why have it?? It serves no purpose other than to drain more taxpayers' dollars.</i>
Nov 18	<i>Many people are of the opinion that the Saskatchewan Rate Review Panel is nothing more than a "rubber stamp: for the government and its crown corporations. This is your opportunity to prove these people wrong by doing the just thing, and denying this rate increase. After all, the primary motivator for all this is a "reasonable rate of return for the shareholder". In fact, the ratepayers are the shareholder.</i>

CRITICAL OF PANEL – FROM 22 ORGANIZATIONS

Date	Content
deleted	<i>The process followed by SRRP ... causes significant concern for [organization's name], not only because of the significant impact that the SRRP recommendations will have on [organization's name] and our members, but also because of the inherent unfairness of the process.</i> <i>...The document on the SRRP website... identifies the process to be followed and specifically requires the SRRP to "Distribute the Consultant's report to the Crown Corporation and Presenters" and thereafter hold a final hearing at which parties may provide further comments, including comments on the Consultant's report...</i> <i>We do not believe that any perceived limitation regarding the amount of time that the SRRP allocates to this process to review the Sask Power proposal justifies depriving participants of their opportunity to review the Consultant report, or for SRRP unilaterally and without notice, depart from is established and published procedure ... Failure to disclose the Consultant report has deprived [organization's name] of due process, including its ability to participate in the review of [the] rate increases.</i> <i>... From your remarks, we understand that the SRRP's position may be that is not within its mandate to review any cost of service study or proposed changes to its rate structure. We would strongly disagree with any such position.</i> <i>These are excerpts taken from a 6-page letter, representing the principal points about SRRP. More elaboration of them, along with other concerns directly related to Sask Power's rate proposal, are provided in the remainder of the letter.</i>
deleted	<i>This 15-page submission includes a review of the work performed by SRRP in previous years, as well as comments and recommendations about the 2004-05 rate application from Saskatchewan Power. Only the last excerpted point deals directly with an inadequacy; the others are reproduced here for context.</i> <i>The reviews performed by the SRRP, and especially the 2004 review of the cost of service study, gives us some comfort that Sask Power's rates are appropriate. However, the depth and rigor of review of Sask Power's costs and rates is lower than many jurisdictions in North America. [We are] not suggesting that the SRRP process is inadequate; ... the level of the SRRP review undertaken supports gradualism.</i> <i>... As noted above, we support prior SRPP recommendations of gradualism, and we believe that similar recommendations should be made for the 2004 rate proposal.</i> <i>... For the most part, the SRRP process provides for a high level of procedural fairness. As discussed above, enhancing the level of consultant review and providing consumers a higher level of information during the process could provide improvement ... allowing consumers a more formal process would be an enhancement.</i> <i>... [We are] most concerned with the "Right to a decision with reasons". In reviewing the prior SRRP reports (including the embedded consultant's reports), there has been insufficient discussion as to why SRRP came to the conclusions and recommendations made.</i>
deleted	<i>The next question ... asked members to express their views on the necessity of the Saskatchewan Rate Review Panel, given that Cabinet has already approved the 2004... increase. A whooping 80% ... expressed the view that the SRRP is redundant. ... why have a rate review panel if Cabinet is going to approve increases prior to any public input particularly given the fact that Sask Power's submission to the panel forecasts that the corporation would have made \$14 million dollars without a rate increase in 2004 and \$34 million in 2005.</i>

CRITICAL OF PANEL – FROM 22 ORGANIZATIONS, cont'd ...

Date	Content
deleted	<i>At the outset we would like to express our appreciation to your Panel for allowing us the opportunity to be involved in this rate review process, which is of significant importance to the continued viability of our operations in Saskatchewan.</i> <i>... We therefore must look forward to the panel's analysis and recommendations with respect to the justification for Sask Power's proposed Capital Programs as well as the Operating, Maintenance and Administration costs. We anticipate that the Panel will also be required to comment on the appropriateness of the cost allocation results, rate design, and proposed rates for each customer class. If the material has not been fully provided and analyzed in detail to the Panel or its consultant, in our view, it is clear that the Panel cannot recommend acceptance of Sask Power's proposal with respect to either the size of the increase, or the fairness and equity of the rates for customer classes relative to each other, as well as for customers within a specific class.</i> <i>... We are also concerned about the narrowness of the scope that the Panel is to review, and the contradictions in the factors to be considered and those to be accepted as given. ... In the absence of a detailed review of matters such as return on equity, existing supply contracts, capital budget allocation, etc, (all of which are to be considered as given), and a detailed cost allocation study, the Panel cannot discharge its mandate. The Panel must balance the interests of all three stakeholders.</i>